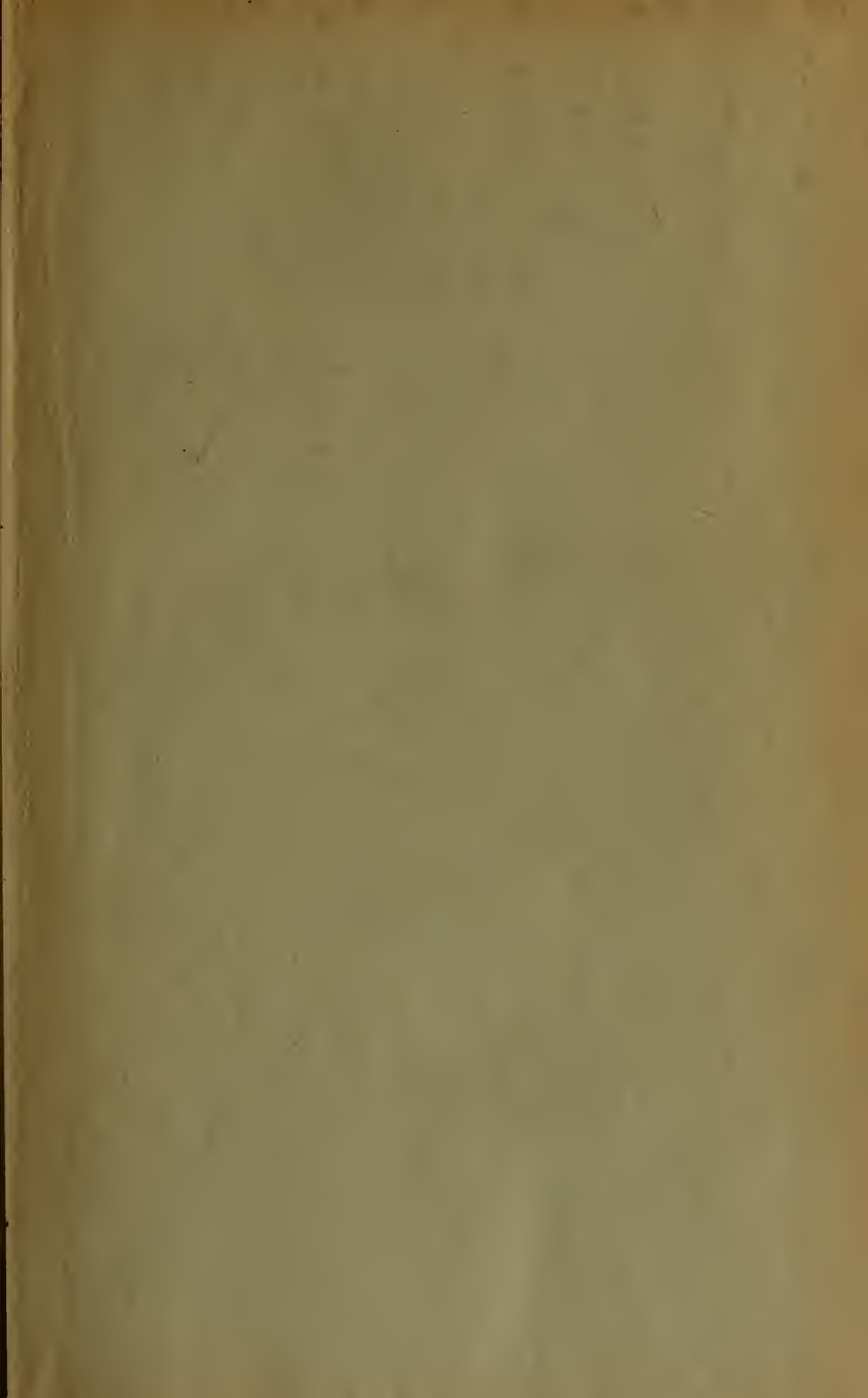


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U.S. Senat Comm. of Banking & Currency



STOCK EXCHANGE PRACTICES

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

SECOND SESSION

ON

S.Res. 84

(72d CONGRESS)

A RESOLUTION TO INVESTIGATE PRACTICES OF STOCK
EXCHANGES WITH RESPECT TO THE BUYING AND
SELLING AND THE BORROWING AND LENDING
OF LISTED SECURITIES

AND

S.Res. 56 and S.Res. 97

(73d CONGRESS)

RESOLUTIONS TO INVESTIGATE THE MATTER OF BANKING
OPERATIONS AND PRACTICES, TRANSACTIONS RELATING TO
ANY SALE, EXCHANGE, PURCHASE, ACQUISITION, BORROW-
ING, LENDING, FINANCING, ISSUING, DISTRIBUTING, OR
OTHER DISPOSITION OF, OR DEALING IN, SECURITIES OR
CREDIT BY ANY PERSON OR FIRM, PARTNERSHIP, COMPANY,
ASSOCIATION, CORPORATION, OR OTHER ENTITY, WITH A
VIEW TO RECOMMENDING NECESSARY LEGISLATION, UNDER
THE TAXING POWER OR OTHER FEDERAL POWERS

PART 11

DETROIT BANKERS COMPANY

JANUARY 24 TO FEBRUARY 1, 1934

Printed for the use of the Committee on Banking and Currency



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1934

STOCK EXCHANGE PRACTICES

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FIRST SESSION

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U.S. Senate

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Sept. 6, 1934

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JOHN G. TOWNSEND, JR., Delaware
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¹ Alternate, Thomas P. Gore, Oklahoma.

² Alternate, Phillips Lee Goldsborough, Maryland.

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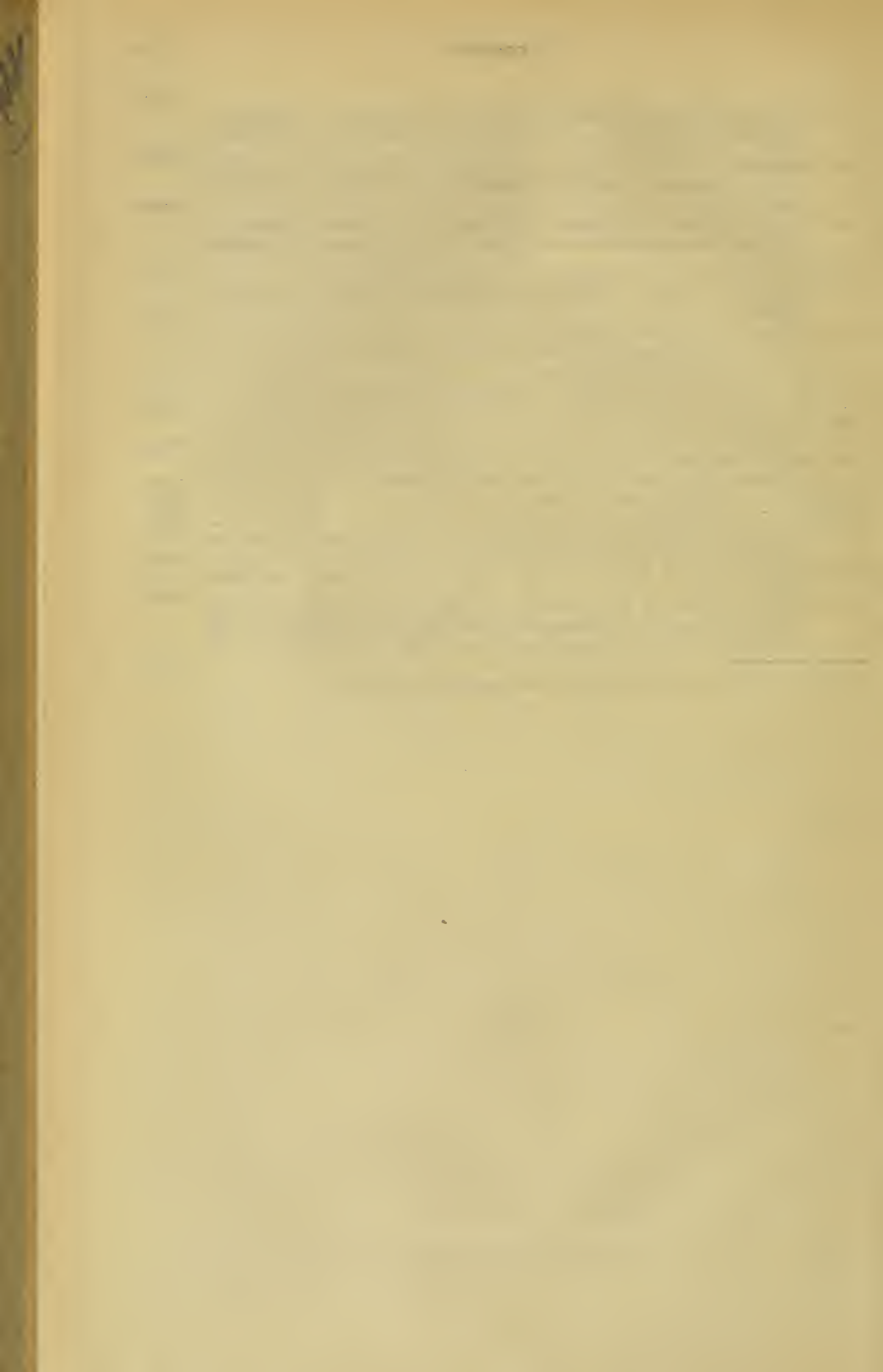
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(*) Not printed because of length or for reasons given in text.



STOCK-EXCHANGE PRACTICES

WEDNESDAY, JANUARY 24, 1934

UNITED STATES SENATE,
SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to adjournment on yesterday, in room no. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Adams, Townsend, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; Thomas G. Long, attorney for witnesses summoned in connection with Detroit Bankers Co.; Clifford B. Longley, attorney for John Ballantyne.

The CHAIRMAN. The subcommittee will please come to order. Mr. Pecora, who will you have first?

Mr. PECORA. Mr. Chairman, this is the beginning of the hearings in connection with the Detroit Bankers Co. I will call Mr. Ballantyne as the first witness.

The CHAIRMAN. Mr. Ballantyne, will you please come forward to the committee table, stand, hold up your right hand, and be sworn?

You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. BALLANTYNE. I do.

The CHAIRMAN. Just take a seat there opposite that microphone on the committee table.

TESTIMONY OF JOHN BALLANTYNE, 1750 BALMORAL DRIVE, DETROIT, MICH., PRESIDENT OF MANUFACTURERS' NATIONAL BANK OF DETROIT AT THE PRESENT TIME

Mr. PECORA. Mr. Ballantyne, will you give your full name, address, and business or occupation?

Mr. BALLANTYNE. My name is John Ballantyne. I reside at 1750 Balmoral Drive, Detroit, Mich. My occupation at the present time is president of the Manufacturers' National Bank of Detroit.

Senator COUZENS. Mr. Longley, are you attorney for Mr. Ballantyne?

Mr. LONGLEY. Yes, sir.

Mr. BALLANTYNE. How was that, Senator Couzens?

Senator COUZENS. I asked Mr. Longley if he was your counsel. I thought he was counsel for the Guardian-Detroit people.

Mr. BALLANTYNE. Well, I have new counsel.

Mr. PECORA. Mr. Ballantyne, were you connected with a company known as the "Detroit Bankers Co."?

Mr. BALLANTYNE. Do you ask, was I?

Mr. PECORA. Yes.

Mr. BALLANTYNE. Oh, yes.

Mr. PECORA. When was that company organized?

Mr. BALLANTYNE. It was organized, or rather was formed on January 8, 1930.

Mr. PECORA. Under the laws of the State of Michigan?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Was it organized as a holding company to acquire, hold, and own stock of banking institutions and other corporations?

Mr. BALLANTYNE. No. Well, now, I would have to know the law on instruments to be able to answer that, and I do not know the law.

Mr. PECORA. Well, you can tell me whether—

Mr. BALLANTYNE (continuing). As a matter of fact, Mr. Pecora, at that time, let me say, so you may have the genesis of this matter: This operation was discussed for years almost before I knew anything about it.

Mr. PECORA. Do you mean that the organization of the company was discussed for a year before its actual incorporation?

Mr. BALLANTYNE. Oh, I think so, all of that time.

Mr. PECORA. Did you participate in any of those discussions?

Mr. BALLANTYNE. No: I didn't know a thing about it until the fall of 1929.

Mr. PECORA. The fall of 1929 was prior to the incorporation of the company, wasn't it?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Did you from that time up to January 8, 1930, participate in any discussions or conferences with regard to the formation of this company?

Mr. BALLANTYNE. To some extent; yes.

Mr. PECORA. With whom did you have such discussions, Mr. Ballantyne?

Mr. BALLANTYNE. Oh, I think there were meetings held of the proposed participants in it.

Mr. PECORA. Who were they?

Mr. BALLANTYNE. At that time Julius Haass was the chief party in it; and Emory Clark, and Dwight Douglas, and I think Ralph Stone, and Mac Browning, and Palmer Livingstone, and Mr. Chittenden, and I think John Woody. I believe those were the men, principally, who discussed the matter then.

Mr. PECORA. Now, Mr. Ballantyne, in the course of those discussions, or as a result of those discussions, what did you learn to be the purpose for which the Detroit Bankers Co. was created?

Mr. BALLANTYNE. Primarily to avoid—well, to get rid of unwise competition. To cut down the number of branches in Detroit.

Mr. PECORA. To cut down the number of branches of what?

Mr. BALLANTYNE. The number of branches of banks. There probable were three-hundred-and-odd branches at that time, or 360—am

I right? (Inquiring of an associate.) Well, say 350 banking institutions in Detroit at that time.

Mr. PECORA. Was this company created for the purpose of taking over a number of different banks with many branches?

Mr. BALLANTYNE. Originally I don't think that was the intention, but I think it was rather confined to the two larger banks. But it later developed into the group of the Peninsula, the Bank of Michigan, and the Detroit Trust Co.

Mr. PECORA. Did you become an officer or director of the Detroit Bankers Co. at the time when it was incorporated?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. What office did you hold in it at that time?

Mr. BALLANTYNE. Only that of director.

Mr. PECORA. Did you ever afterward become an officer?

Mr. BALLANTYNE. Did you ask. Did I have to be an officer?

Mr. PECORA. No. Did you afterward become an officer?

Mr. BALLANTYNE. Yes.

Mr. PECORA. What officer did you become in the company?

Mr. BALLANTYNE. Of what, the Detroit Bankers Co.?

Mr. PECORA. Yes.

Mr. BALLANTYNE. No; I did not until quite late, after Julius Haass' death.

Mr. PECORA. Not until when?

Mr. BALLANTYNE. Not until the death of Mr. Julius Haass.

Mr. PECORA. What office did you then have, or were you elected to?

Mr. BALLANTYNE. I succeeded Mr. Haass.

Mr. PECORA. As what, the president of the company?

Mr. BALLANTYNE. Yes; of the Detroit Bankers Co.

Mr. PECORA. When did you become president of the Detroit Bankers' Co.?

Mr. BALLANTYNE. I believe it was in May of 1931.

Mr. PECORA. And for how long after that did you continue to serve as president of the Detroit Bankers Co.?

Mr. BALLANTYNE. Until I left, in May of the following year.

Mr. PECORA. In May of 1932?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Do you know who succeeded you as president?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Who was it?

Mr. BALLANTYNE. Do you mean of the Detroit Bankers Co.?

Mr. PECORA. Yes.

Mr. BALLANTYNE. Was it Mr. Mills? [Inquiring of an associate.] No; it was Mr. E. D. Stair.

Mr. PECORA. When you were succeeded by Mr. Stair as president of the company did you continue to serve as a director of the company?

Mr. BALLANTYNE. Oh, no.

Mr. PECORA. Did you at that time sever all of your official connection with the company?

Mr. BALLANTYNE. Absolutely.

Mr. PECORA. Now, I have here what purports to be a photostatic reproduction of the articles of association of the Detroit Bankers Co.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Will you be good enough to look at it and tell me if you recognize it to be a true and correct copy of such articles of association?

Mr. BALLANTYNE (after looking at the paper). It is substantially correct.

Mr. PECORA. Mr. Chairman, I offer it in evidence.

The CHAIRMAN. Let it be admitted and made a part of the record.

(The Articles of Association of the Detroit Bankers Co. was marked "Committee Exhibit No. 1, Jan. 24, 1934", and will be found at the end of the day's proceedings; and also there are portions of it appearing immediately below as read by Mr. Pecora.)

Mr. PECORA. This paper has been marked "Committee Exhibit No. 1" as of this date. I shall only read for our immediate purposes article III of these Articles of Association, as follows:

The purpose or purposes of this corporation are as follows:

To acquire, own, hold, vote and exercise all rights of ownership of and to sell and dispose of shares of the capital stock of banks and trust companies and of other corporations or associations engaged in purchasing, selling on their own account or as agents of others, underwriting or dealing in corporate and other securities, or of any other corporation engaged in any business or activity incidental to or related to or of assistance in the conduct of any such business aforesaid.

Now, and the following provisions of article V thereof:

The total capital stock authorized is Fifty Million (\$50,000,000.00) Dollars and one hundred and twenty (120) shares of no par value.

The amount subscribed is one hundred and twenty (120) shares of no par value.

The amount paid in is One thousand two hundred (\$1,200.00) Dollars.

The number of shares of Common Stock is two million five hundred thousand (2,500,000) of the par value of Twenty (\$20.00) Dollars each.

The number of shares of Non-Par Value Stock is one hundred and twenty (120); the price of each and at which they have been or it is proposed they shall be sold is Ten (\$10.00) Dollars.

The classification of the capital stock and the privileges, rights, voting powers and restrictions thereof are as follows:

The par value shares shall be known as Common Stock.

The non par value shares shall be all of one class and shall be known as Trustee Shares. Said Trustee Shares shall not participate in dividends, assets or subscription rights.

Until December 31, 1934, the Trustee Shares shall have exclusive voting power in the election and in the removal of Directors, and all other voting power shall be vested in the Common Stock, except that no increase or decrease of the capital stock or change in the number or qualification of directors shall be authorized or other class of stock created or the sale of all of the property or business of this corporation, or the sale of any substantial part of the shares of capital stock or property or business of the following institutions: the Peoples Wayne County Bank, the First National Bank in Detroit, the Detroit and Security Trust Company, the Bank of Michigan, or the Peninsular State Bank, shall be authorized except by and with the vote of at least two-thirds of all of the outstanding shares of the Common Stock and of a like proportion of the Trustee Stock. Upon December 31, 1934, said Trustee Shares shall be redeemed and cancelled on payment of Ten (\$10.00) Dollars per share. On and after January 1, 1935, all of the voting power of the stockholders shall be vested in the Common Stock.

During the time the voting powers in the election of directors shall be vested in the Trustee Shares the right to vote the same cumulatively shall obtain.

The right of holders of Common Stock to vote cumulatively for directors from and after the date the voting powers in the election of Directors shall be vested in the Common Stock shall be and the same is waived, and the Directors of this corporation shall be elected by the affirmative vote of a majority of

the stock then entitled to vote present in person or by proxy at any meeting of such stockholders called for that purpose.

The amount of Common Stock paid for in cash is No Dollars and No Dollars have been paid in in property.

The amount of No Par Value Stock paid for in cash is One Thousand Two Hundred (\$1,200.00) Dollars.

The amount of actual capital in cash or property, or both, which this corporation owned and possessed at the time of executing these articles is One Thousand Two Hundred (\$1,200.00) Dollars.

And article VI thereof:

The term of this corporation is fixed at thirty (30) years.

And article VII thereof:

Names of stockholders, their residence, and shares subscribed by each, are:

Names	Residences	Common stock	Trustee shares
Julius H. Haass.....	75 Cloverly, Grosse Pointe Farms, Michigan.....	None	10
John R. Bodde.....	3001 Seminole, Detroit, Mich.....	None	10
Emory W. Clark.....	8310 E. Jefferson, Detroit, Michigan.....	None	10
D. Dwight Douglas.....	Rathbone Place, Grosse Pointe, Michigan.....	None	10
Ralph Stone.....	Cranbrook Road, Bloomfield Hills, Mich.....	None	10
McPherson Browning.....	2940 Iroquois, Detroit, Michigan.....	None	10
John Ballantyne.....	1570 Balmoral, Detroit, Michigan.....	None	10
T. W. P. Livingstone.....	394 Rivard Blvd., Grosse Pointe, Michigan.....	None	10
Herbert L. Chittenden.....	1011 Buckingham, Grosse Pointe Park, Mich.....	None	10
Fred J. Fisher.....	54 Arden Park, Detroit, Mich.....	None	10
William T. Barbour.....	2931 E. Jefferson, Detroit, Mich.....	None	10
Wesson Seyburn.....	16850 E. Jefferson, Grosse Pointe, Mich.....	None	10
Total.....		None	120

And article VIII thereof:

The names and addresses of officers and directors for the first year of the corporation's existence, are as follows:

Names	Residences	Directors	Officers
Julius H. Haass.....	75 Cloverly, Grosse Pointe Farms, Mich.....	Yes.....	President.
John R. Bodde.....	3001 Seminole, Detroit, Mich.....	Yes.....	
Emory W. Clark.....	8310 E. Jefferson, Detroit, Mich.....	Yes.....	Vice-president.
D. Dwight Douglas.....	Rathbone Place, Grosse Pointe, Mich.....	Yes.....	
Ralph Stone.....	Cranbrook Road, Bloomfield Hills, Mich.....	Yes.....	
McPherson Browning.....	2940 Iroquois Ave., Detroit, Mich.....	Yes.....	
John Ballantyne.....	1570 Balmoral, Detroit, Mich.....	Yes.....	
T. W. P. Livingstone.....	394 Rivard Blvd., Grosse Pointe, Mich.....	Yes.....	Secretary - treasurer.
Herbert L. Chittenden.....	1011 Buckingham, Grosse Pointe Park, Mich.....	Yes.....	
Fred J. Fisher.....	54 Arden Park, Detroit, Mich.....	Yes.....	
William T. Barbour.....	2931 E. Jefferson, Detroit, Mich.....	Yes.....	
Wesson Seyburn.....	16850 E. Jefferson, Grosse Pointe, Mich.....	Yes.....	
E. R. Lewright.....	15 E. Kirby, Detroit, Mich.....	No.....	

I will read the following from article IX of the Articles of Association:

The following special statements pertaining to the primary organization of this corporation and not included in the foregoing requirements are set forth under this article.

(A) The holder of each share of Common Stock of this corporation shall be individually and severally liable for such stockholder's ratable and proportionate part (determined on the basis of their respective stockholdings of the total issued and outstanding stock of this corporation) for any statutory liability imposed upon this corporation by reason of its ownership of shares of the capital stock of any bank or trust company, and the stockholders of this

company—by the acceptance of their certificates of stock of this company—severally agree that such liability may be enforced in the same manner and to the same extent as statutory liability may now or hereafter be enforceable against stockholders of banks or trust companies under the laws under which said banks or trust companies are organized or operate. A list of the stockholders of this company shall be filed with the Banking Commissioner of Michigan or the Comptroller of the Currency, whenever requested by either of those officers.

(B) The stock of the corporation authorized by these articles and any stock of this corporation authorized by any certificate of increase of the capital stock may be issued and disposed of by the Board of Directors to such persons, firms, corporations or associations in exchange for capital stock and/or assets of banks, trust companies or other corporations or associations included within the provisions of Article III, and upon such terms as the Board of Directors in their discretion may determine. In any of such instances no holder of any stock of this corporation shall be entitled, as of right, to subscribe for, purchase or receive any proportionate or other share of stock so to be issued. In case, however, the Board of Directors shall determine to issue any stock of the corporation created by these articles or by any certificate of increase of the capital thereof, for any other purpose than exchange as aforesaid, the holders of Common Stock of this corporation shall first be entitled to subscribe for, purchase and receive such stock to be issued, ratably and at such price and upon such terms as may be fixed from time to time by the Board of Directors.

(C) No contract or other transaction with any other corporation, association or firm shall be in any way affected or invalidated by the fact that any of the Directors of this corporation are Directors of or otherwise interested in such other corporation, association or firm. Any Director of this corporation may vote upon any contract or other transaction between this corporation and any subsidiary or affiliated corporation, without regard to the fact that he is also a Director of such subsidiary or affiliated corporation.

(D) No substantial part of the shares of the capital stock at any time owned by this corporation in any of the following named institutions:

Peoples Wayne County Bank
First National Bank in Detroit
Detroit and Security Trust Company
Bank of Michigan
Peninsular State Bank

shall be mortgaged, pledged or sold, nor shall consent be given to the mortgage, pledge or sale of the property or business of any of said institutions except by and with the vote of at least two-thirds of all of the outstanding shares of the Common Stock and—until December 31, 1934—of a like proportion of the Trustee Stock, except

(1) The Board of Directors may vote to consolidate or merge any one or more of said institutions with any one or more of the others of said institutions or with any one or more other institutions provided a like proportion of the shares of the capital stock of the resulting or continuing institution shall be acquired and owned by this corporation as were owned and held of the capital stock of said institution above named being a party to such consolidation or merger and the capital stock of said resulting or continuing institution so acquired shall likewise be subject to the limitations aforesaid; and

(2) The Board of Directors in order to qualify persons to act as directors or officers of any of the institutions aforesaid may sell to each such person the minimum number of shares required to so qualify such person but shall take back from each such person an appropriate and adequate option or agreement whereby this corporation shall have the absolute right to re-acquire said shares at any time when such person shall cease to be such director or officer.

Subject only to the limitations aforesaid the Board of Directors shall have full power and authority to mortgage, pledge, sell or otherwise deal with or dispose of any of the corporate property without action by or reference to the stockholders or any of them.

(E) The Board of Directors shall consist of twelve directors each of whom shall be—until December 31, 1934—the holder in his name as Trustee of ten shares of Trustee Stock, and thereafter shall be the owner in his own right of ten shares of the Common Stock of this corporation. The President shall be

but no other officer need be a member of the Board of Directors or a stockholder.

These articles were signed on the 9th day of October 1929 by the following-named gentlemen:

Julius H. Haass, John R. Bodde, Emory W. Clark, D. Dwight Douglass, Ralph Stone, McPherson, Browning, John Ballantyne, T. W. P. Livingstone, Herbert L. Chittenden, Fred J. Fisher, William T. Barbour, and Wesson Seyburn.

And the execution of these articles was acknowledged by the aforesaid incorporators on December 31, 1929.

Senator COUZENS. Mr. Ballantyne, do you know who drafted those articles of incorporation?

Mr. BALLANTYNE. It is very difficult to tell. There were half a dozen firms of lawyers, I think, connected with them. Mr. Long had a good deal to do with them, and Mr. Mills had a good deal to do with them.

Senator ADAMS. Senator Couzens, is there any requirement in Michigan, or any authority, which compels the submission of articles of incorporation to any State authority before they may become effective?

Senator COUZENS. Oh, yes. They have to be filed with the Secretary of State, I think.

Senator ADAMS. Yes; but does he have authority to pass upon them, say, on the ground that they exceed what is proper?

Mr. PECORA. Probably it is nothing more than the usual power, to insist upon a change of a proposed corporate name because it may conflict with some other name.

Senator ADAMS. In some States they have given a commission authority to pass upon it. But I gather in Michigan it is rather wide open upon that subject.

Senator COUZENS. It would appear to be so.

Mr. PECORA. It was in 1930, anyway. Now, Mr. Ballantyne, do you know who conceived the idea of having the directors of this corporation chosen from among only those persons who held the so-called "trustee shares"?

Mr. BALLANTYNE. I think that was Mr. Haass' idea entirely.

Mr. PECORA. Whose idea?

Mr. BALLANTYNE. Mr. Haass'.

Mr. PECORA. Did you say, "Mr. Haass"?

Mr. BALLANTYNE. Yes, sir; I believe so.

Mr. PECORA. In any discussions or conferences that you attended that led up to the preparation and execution and filing of these articles of association, what advantages or benefits were claimed for that plan or that particular feature of the plan of this corporation?

Mr. BALLANTYNE. I think Mr. Haass had in mind—and, mind you, I just think so now, and my memory is not—

Mr. PECORA (interposing). Please talk a little louder.

Mr. BALLANTYNE. As you know, this is a long time back.

Mr. PECORA. Well, if there is any way by which you can refresh your recollection, either by reference to any documents available to you, or by conference with any of your associates, just refresh your recollection.

Mr. BALLANTYNE. There is a trust agreement here which was drawn concurrently and from which I quote:

The spirit of the foregoing being to perpetuate a proportionate representation of each of the foregoing institutions or their successors during the period of the trust.

Mr. PECORA. Will you let me look at that so-called "trust agreement" that you have read from?

Mr. BALLANTYNE. Yes, indeed. Mr. Pecora, my memory tells me this, and it was the point that interested me most in the matter: That at the time this was formed it was intended to write off all furniture and fixture accounts.

Mr. PECORA. To write off what?

Mr. BALLANTYNE. All furniture and fixture accounts.

Mr. PECORA. Belonging to whom?

Mr. BALLANTYNE. To the different banks.

Mr. PECORA. To the various banks it was proposed at the outset were to be acquired by this holding company?

Mr. BALLANTYNE. Yes. I think that amounted to \$1,600,000, as I recall it. And it was proposed to charge off all defaulted bonds. I do not know to what extent that was carried out, but in the case of the Bank of Michigan it was carried out substantially. It was proposed to start a clean institution, and it was intended that each institution should run as is. It was never contemplated at the beginning that they should all be thrown into one hopper.

Mr. PECORA. Well, isn't that the very thing that this holding company, called the "Detroit Bankers Co.", was virtually authorized to do by its articles of association, namely to acquire these various banks and to control their operation?

Mr. BALLANTYNE. Really, Mr. Pecora, I can only speak from memory, and my honest belief was that no such thought was given to that at the time. It was contemplated that these banks should run as units, and to eliminate necessarily unwise competition as between them. You have got really to know Detroit in order to understand what I am trying to tell you.

The CHAIRMAN. How could you eliminate unwise competition if each unit was to operate just as it was?

Mr. BALLANTYNE. How could we?

The CHAIRMAN. Yes.

Mr. BALLANTYNE. Oh, I don't know. Perhaps you could have more influence over them as against unwise prejudices.

Senator COUZENS. What was your capacity when this agreement was entered into?

Mr. BALLANTYNE. Oh, I was chairman of the board of the Bank of Michigan. I was on my way out, Senator.

Mr. PECORA. Mr. Chairman, I want to offer in evidence the copy of the trust agreement produced by the witness. I think it an important document, and I am trying to place in the committee's record important documents.

The CHAIRMAN. Let it be admitted.

(The trust agreement with reference to the Detroit Bankers Co. was marked "Committee Exhibit No. 2, Jan. 24, 1934", and will be found at the end of the day's record.)

Mr. BALLANTYNE. Mr. Pecora, may I ask the favor that we get the return of this paper I have handed you and which you have just made an exhibit?

Mr. PECORA. Yes, it will be returned to you after the committee reporter has copied it and made it a part of our record.

Mr. BALLANTYNE. All right. I thank you.

Mr. PECORA. By the way, the document you have given me is merely an unsigned copy, I see.

Mr. BALLANTYNE. Yes, sir; it is that, but it is the only one we have and it is important that we get it back.

Mr. PECORA. Haven't you other copies?

Mr. BALLANTYNE. No; I haven't.

Mr. PECORA. Mr. Ballantyne, it was the primary purpose of the gentlemen who were the signers of this trust agreement marked in evidence as "Exhibit No. 2" of this date to create a holding company which would acquire, hold, and own——

Mr. BALLANTYNE (interposing). According to the records of the company.

Mr. PECORA (continuing). The shares of the capital stock of the following five institutions.

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. Peoples Wayne County Bank, First National Bank in Detroit, the Detroit & Security Trust Co., Bank of Michigan, and the Peninsular State Bank.

Mr. BALLANTYNE. Yes.

Mr. PECORA. You were at the time of the execution of the trust agreement and also at the time of the incorporation of the Detroit Bankers Co. the chairman of the board of the Bank of Michigan?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. Were all of these five banks whose names I have given you located in the city of Detroit?

Mr. BALLANTYNE. Yes; almost within a stone's throw of one another.

Mr. PECORA. And you said something at the outset of your testimony about a large number of branches.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Were you then alluding to the branches of these five banks?

Mr. BALLANTYNE. Yes.

Mr. PECORA. They were all in operation?

Mr. BALLANTYNE. Yes. Well, I was not alluding to them entirely. I was alluding to all of them.

Mr. PECORA. Not only the branches but to the banks themselves?

Mr. BALLANTYNE. I don't know just how many branches these particular banks had, but they were very numerous. I think about 250.

Mr. PECORA. When this company was incorporated on January 8, 1930, did you know that there was then in existence doing business and in operation another bank holding company called the Guardian Detroit Union Group, Inc.?

Mr. BALLANTYNE. No, indeed; we didn't.

Mr. PECORA. As I recall the evidence before this committee, that company was incorporated—first, one of the constituents of the company was incorporated in 1927.

Mr. BALLANTYNE. I couldn't tell you that. I don't know which one you refer to.

Mr. PECORA. I think it was the one known as the Union Commerce Investment Co.

Mr. BALLANTYNE. The Union Commerce National Bank—the National Bank of Commerce, I think it was.

Mr. PECORA. Yes.

Mr. BALLANTYNE. And it was changed to the Guardian National Bank of Commerce.

Mr. PECORA. In December 1929 there was a merger or consolidation of the Guardian Detroit Co. with the Union Commerce Investment Co. under the name of the Guardian Detroit Union Group, Inc.; do you recall that?

Mr. BALLANTYNE. Well, I don't know the Union Commerce Investment Co. at all. I am not familiar with their ramifications, of course.

Mr. PECORA. You do know the organization that was called the Guardian Detroit Union Group.

Mr. BALLANTYNE. Oh, very well; yes.

Mr. PECORA. Was this Detroit Bankers Co. designed to compete as a bank holding company with that Guardian Detroit Union Group, Inc., which was also a holding company?

Mr. BALLANTYNE. I would not like to say that. Of course, the Guardian Bank tried to get some of these banks, I think, but I do not believe the idea of competition was in it, nor was it supposed to be an endorsement of group banking at all. It was so specified by Julius Haass at the time. He was the——

Mr. PECORA (interposing). He was the guiding spirit of this corporation, was he?

Mr. BALLANTYNE. Oh, yes.

Mr. PECORA. At least at its inception?

Mr. BALLANTYNE. Oh, yes.

Mr. PECORA. According to the trust agreement received in evidence here as committee's exhibit no. 2, the participants therein, or the parties thereto, were Julius H. Haass, John R. Bodde, Emory W. Clark, D. Dwight Douglas, Ralph Stone, McPherson Browning, John Ballantyne, which is yourself, T. W. P. Livingstone, H. L. Chittenden, Fred J. Fisher, William T. Barbour, and Wesson Seyburn, and I observe that those names are the same as the names of the incorporators of the Detroit Bankers Co.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Now, these 12 persons were the persons who acquired the 120 so-called "trustee shares?"

Mr. BALLANTYNE. Yes.

Mr. PECORA. Of the capital stock of the Detroit Bankers Co.?

Mr. BALLANTYNE. Yes.

Mr. PECORA. At the very outset?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Each one acquiring 10 of the 120 shares?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And paying for them \$120. or \$10 apiece?

Mr. BALLANTYNE. Yes.

Mr. PECORA. That was the sole capital with which the Detroit Bankers Co. commenced business, wasn't it?

Mr. BALLANTYNE. Yes, sir; I believe so.

Mr. PECORA. \$1,200 that was paid by the 12 trustees, each one for 10 shares of the trustee stock?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Now, can you tell the committee the purpose for vesting in the 12 holders of the trustee shares of the capital stock of this holding company the sole voting power for the election of officers and directors of the company for the first 5 years?

Mr. BALLANTYNE. Mr. Pecora, I am afraid I cannot. That was an idea that was promulgated by Julius Haass. I never quite understood it. The board was enlarged after he——

Mr. PECORA (interposing). I know the board was enlarged eventually from 12 to 21 persons.

Mr. BALLANTYNE. Yes; I think something like that.

Mr. PECORA. On promulgating this idea what benefits did Mr. Haass claim for it?

Mr. BALLANTYNE. I don't know that I could answer that very clearly.

Mr. PECORA. Why not?

Mr. BALLANTYNE. I don't think my memory is clear on that.

Mr. PECORA. What benefits do you now see to have been inherent in that plan?

Mr. BALLANTYNE. Oh, I don't know that I see any particularly.

Mr. PECORA. What is that?

Mr. BALLANTYNE. Unless just a small group could hold together better. I am sure I don't know. But you could get that information from other sources, I am sure, better than from me.

Mr. PECORA. Well now, Mr. Ballantyne, you were one of that small group from the start?

Mr. BALLANTYNE. That is true.

Mr. PECORA. And you eventually became the president of this holding company?

Mr. BALLANTYNE. No; but I never contemplated, my dear sir——

Mr. PECORA (interposing). Whether you contemplated it or not, you became its president?

Mr. BALLANTYNE. That was fate that did that, not me.

Mr. PECORA. Well, fate put you in the presidency of this holding company?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And you continued to serve as president for more than 1 year?

Mr. BALLANTYNE. No; 1 year.

Mr. PECORA. For 1 year?

Mr. BALLANTYNE. Yes.

Mr. PECORA. All right. And you were a director from the start?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And you were one of the 12 trustees, were you not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Now, can't you tell this committee, not upon any recollection of what Mr. Haass might have said about it, but can't you tell this committee your own idea of the benefits that accrued or were attached to this feature of the plan of the Detroit Bankers Co., the feature I refer to being to vest absolute voting power for the election of officers and directors in these 12 trustees for the first 5 years?

Mr. BALLANTYNE. Mr. Haass had the desire to prevent—I know this; he expressed himself to this extent—to prevent the possibility of an attack on Detroit by any large interests elsewhere. I know that was in his mind.

Mr. PECORA. An attack on Detroit?

Mr. BALLANTYNE. Well, not an attack—he didn't want to have outside interests coming in and getting control of these older banks of Detroit or anywhere. I know that was partly in his mind. The truth to tell, I didn't pay much attention to that at all, Mr. Pecora.

Mr. PECORA. Can't you tell this committee any benefits that seemed to you attached to this feature of the plan?

Mr. BALLANTYNE. I never saw any benefits particularly. When I succeeded him I enlarged or had the board enlarged. I didn't see any reason, unless it was to perpetuate themselves in office.

Mr. PECORA. That was it exactly, wasn't it, to perpetuate themselves in office?

Mr. BALLANTYNE. That was not my idea.

Mr. PECORA. Whether it was your idea or not, wasn't that the motive that prompted it?

Mr. BALLANTYNE. I would not say that.

Mr. PECORA. Wasn't that the thought that prompted the inclusion of that feature of this corporation in its articles of association?

Mr. BALLANTYNE. If I were to say yes, if I were to answer in the affirmative, Mr. Pecora, I would not be telling the truth. I don't know. Frankly, I don't know.

Mr. PECORA. Now, you said that this corporation was the outcome of conferences that covered a period of perhaps a year prior to the date when the corporation was created.

Mr. BALLANTYNE. Well, that was a conjecture. I am not sure of the last of the year.

Mr. PECORA. It was several months prior, that you know?

Mr. BALLANTYNE. Yes; it was quite a time prior to that. I was not informed about those at the time.

Mr. PECORA. Apparently at the very outset the central purpose of the gentleman who became the 12 trustees or 12 owners of all of the trustee stock of this corporation was to bring together in this holding company the five banks that I have named?

Mr. BALLANTYNE. Yes; and to eliminate branches and bring in economies that would naturally follow from such an arrangement, and to create a bank that was in proportion to the needs of Detroit.

Mr. PECORA. And the general method by which these five banks were to be brought under the ownership, let us call it——

Mr. BALLANTYNE. Yes.

Mr. PECORA. Of this holding company that was called the Detroit Bankers Co., was through the process of exchange of stock, to have this holding company acquire all of the out-standing capital stock of these five banks?

Mr. BALLANTYNE. I presume so.

Mr. PECORA. Well, don't you know so?

Mr. BALLANTYNE. Yes. I would say so.

Mr. PECORA. Now, as a matter of fact, the plan for the creation of this corporation was pretty well completed about 3 months before the corporation was actually organized, wasn't it, namely, in October 1929?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And about that time, the early part of October 1929, do you know whether a circular letter was caused to be printed and sent out to the stockholders of each of the five banks that I have named, in which reference was made to the plan to create a holding company which would exchange its capital stock for the capital stock of the five banks?

Mr. BALLANTYNE. I believe that is true.

Mr. PECORA. I show you what purports to be a printed circular or letter of that sort. Will you look at it and tell me if you recognize it to be a copy of such printed letter or circular so sent out and addressed to the stockholders of those five banks?

Mr. BALLANTYNE (after perusing document). Yes; that is all right, Mr. Pecora.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and entered on the record.

(Printed circular dated Oct. 5, 1929, addressed to the stockholders of Peoples Wayne County Bank, First National Bank in Detroit, Detroit and Security Trust Co., Bank of Michigan, and Peninsular State Bank, and signed by Peoples Wayne County Bank, Julius H. Haass, president, John R. Bodde, vice president; First National Bank in Detroit, Emory W. Clark, chairman of the board, D. Dwight Douglas, president; Detroit and Security Trust Co., Ralph Stone, chairman of the board, Albert E. Green, vice chairman of the board, McPherson Browning, president; Bank of Michigan, John Ballantyne, chairman of the board, T. W. P. Livingstone, president; Peninsular State Bank, E. J. Hickey, chairman of the board, H. L. Chittenden, president, was thereupon designated "Committee Exhibit No. 3, Jan. 24, 1923", and appears in full immediately following where read by Mr. Pecora.)

Mr. PECORA. The exhibit received as exhibit no. 3 of this date is printed and reads as follows [reading]:

DETROIT, MICH., October 5, 1929.

"To the stockholders of PEOPLES WAYNE COUNTY BANK, FIRST NATIONAL BANK IN DETROIT, DETROIT AND SECURITY TRUST COMPANY, BANK OF MICHIGAN, PENINSULAR STATE BANK:

The Boards of Directors of the above banks and trust company, at meetings held on September 27, 1929, unanimously adopted resolutions recommending to their stockholders the exchange of their stock for stock of a holding corporation to be organized, to be known as Detroit Bankers Company.

The banks and trust company to be affiliated in this way will have combined capital, surplus, and undivided profits of approximately \$20,000,000.00 and

resources of about \$725,000,000.00. This represents approximately 60 percent of the total banking resources of Detroit, and the new institution will be the largest of its character in Michigan and the largest between New York and Chicago. The institutions so affiliated will have 192 branches, and will serve approximately 900,000 depositors and clients.

The Detroit Bankers Company will have an authorized capital of \$50,000,000.00 with 2,500,000 Common shares of the par value of \$20 per share. Of this amount \$35,000,000.00 will be exchanged for stocks of the four banks and the trust company, the balance of \$15,000,000.00 remaining in the treasury of the company. The Charter will provide that the Directors shall have power to issue this stock in exchange for capital stock or assets of other financial institutions. In case the stock is sold for cash, each stockholder will have the right to subscribe for his proportion. There will also be the trustee stock mentioned below.

Julius H. Haass will be president of the company. The Board of Directors will be twelve in number, as follows: Julius H. Haass, President, and John R. Bodde, Vice-President, of the Peoples Wayne County Bank; Emory W. Clark, Chairman of the Board and D. Dwight Douglas, President, of the First National Bank in Detroit; Ralph Stone, Chairman of the Board, and McPherson Browning, President, of the Detroit and Security Trust Company; John Ballantyne, Chairman of the Board, and T. W. P. Livingstone, President, of the Bank of Michigan; Herbert L. Chittenden, President of the Peninsular State Bank; Fred J. Fisher, William T. Barbour; and Wesson Seyburn. In order to insure the maintenance of existing policies, it is proposed that the first Board of Directors shall continue for a period of five years and to accomplish this purpose, the Charter will provide for the creation of 120 shares of Trustee stock so-called (in addition to the par value stock mentioned above) without par value, and for the sole voting power for directors to be vested in the Trustee stock until December 31, 1934. This stock will be issued in the names of the directors as Trustees for the benefit of all holders of Common shares of the company, and will not be entitled to any dividends or assets whatsoever and will be cancelled on December 31, 1934, upon payment of \$10,000 per share, at which time all the voting power will rest in the par value shares.

The plan will become effective when 66-2/3 per cent in amount of the stock of each of the above banks and trust company is deposited for exchange.

The exchange of the stock will be made upon the following bases:

Peoples Wayne County Bank—one and one-half shares of the new company stock of \$20 par for each share of present stock of the bank of \$20 par;

First National Bank in Detroit—4.466 shares of the new company stock of \$20 par for each share of present stock of the bank of \$100 par;

Detroit and Security Trust Company—10 shares of the new company stock of \$20 par for each share of present stock of the company of \$100 par;

Bank of Michigan—3 shares of the new company stock of \$20 par for each 4 shares of present stock of the bank of \$20 par;

Peninsular State Bank—4.1 shares of the new company stock of \$20 par for each 5 shares of present stock of the bank of \$20 par;

Certificates for fractional shares of stock in the new company will not be issued but scrip certificates will be issued to each person entitled to a fraction of a share, which scrip certificates when combined to equal to exceed one share will be exchangeable for a certificate for such share of stock and a new scrip certificate will be issued for any excess fraction of a share remaining. The scrip will be not entitled to dividends nor have any voting power.

It is proposed that dividends be paid upon the Common stock of the new company, in the aggregate amount of 17 per cent. annum. payable quarterly.

In order that each customer of these allied institutions may continue to enjoy all existing connections and facilities, it is planned to carry on each institution as at present organized.

This forward looking step is in harmony with the trend of modern banking. In order that the advantages of the plan may accrue to the stockholders at as early a date as possible, it is very important that you deposit your stock at once.

There is enclosed herewith a form of agreement and power, which should be executed by you, duly witnessed, and returned with your certificates of stock of the above banks and trust company, endorsed by you in blank and duly witnessed. The signatures on the stock and agreement and power must correspond. They should be forwarded to Detroit and Security Trust Company.

Depository, which institution will issue in exchange therefor a transferable certificate of deposit, which in turn will be exchangeable for Common stock of the new company, upon the consummation of the plan. The corporation will attach the necessary revenue stamps.

No Federal income tax will accrue on the exchange of your stock.

Yours respectfully,

PEOPLES WAYNE COUNTY BANK,

JULIUS HAASS, *President*.

JOHN R. BODDE, *Vice President*.

FIRST NATIONAL BANK IN DETROIT,

EMORY W. CLARK,

Chairman of the Board.

D. DWIGHT DOUGLAS, *President*.

DETROIT AND SECURITY TRUST COMPANY.

RALPH STONE, *Chairman of the Board*.

ALBERT E. GREEN,

Vice-Chairman of the Board.

McPHERSON BROWNING, *President*.

BANK OF MICHIGAN,

JOHN BALLANTYNE,

Chairman of the Board.

T. W. P. LIVINGSTONE, *President*.

PENINSULAR STATE BANK,

E. J. HICKEY, *Chairman of the Board*.

H. L. CHITTENDEN, *President*.

Now, Mr. Ballantyne, at the time that the Detroit Bankers Co. came into formal existence, namely, on January 8, 1930, conditions in the securities market were pretty well unsettled, were they not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Do you recall that?

Mr. BALLANTYNE. Yes; very well.

Mr. PECORA. Do you recall that in the latter part of October 1929, over 2 months prior to the incorporation of this company, there had been a startling collapse on the stock exchange?

Mr. BALLANTYNE. Yes; I happen to know all about it.

Mr. PECORA. And in the midst of the turmoil created by those conditions this company was born, wasn't it?

Mr. BALLANTYNE. Yes.

Mr. PECORA. At that time there was considerable doubt and uncertainty in the minds of business men, financiers, with regard to the immediate future?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Very much so?

Mr. BALLANTYNE. Yes.

Mr. PECORA. In view of those circumstances, Mr. Ballantyne, why did the trustees or the organizers or creators of this company undertake in advance to fix the dividend rate of this holding company at 17 percent?

Mr. BALLANTYNE. I believe that was determined to a large extent by the earnings of the banks prior to that time and the—I do not believe I had any participation in that.

Mr. PECORA. What is that?

Mr. BALLANTYNE. I don't recall having had participation in that deliberation.

Mr. PECORA. Well, your name is signed as the chairman of the board of the Bank of Michigan to this circular letter dated October 5, 1929?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Which is addressed to the stockholders of each of the five banks?

Mr. BALLANTYNE. Yes.

Mr. PECORA. That it was intended to take into this holding company?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And in this circular reference is made to the dividends to be paid by the holding company on its capital stock in the following language.

Mr. BALLANTYNE. Yes.

Mr. PECORA (reading):

It is proposed that dividends be paid upon the common stock of the new company in the aggregate amount of 17 percent per annum payable quarterly.

Now, isn't it reasonable to assume then that in view of those facts you took part in the discussions or deliberations which led to the adoption of that dividend rate even before the company saw official life?

Mr. BALLANTYNE. Can I interpolate anything in this discussion, Mr. Pecora? I want you to get the picture perfectly clear.

Mr. PECORA. All right, sir.

Mr. BALLANTYNE. For a great many years I was president, or chairman of the board for a little while, of the Merchants National Bank of Detroit. I presumed that bank had been sought as much as any bank in Detroit to merge. I was constitutionally opposed to mergers. At the time that we merged with the Bank of Michigan, I give you my word, and everybody knows in Detroit that I was on my way up, and I was getting my bank into such shape that I merged with the Bank of Michigan for that purpose. Then Julius came to me and asked if I would help out, and I said "To the extent of my ability." I was getting along. I was willing to help an old friend do a thing that he thought constructive, and that is the part I played at that time. Now, you have a perfect understanding of the part I played.

Mr. PECORA. Mr. Ballantyne, you were not willing to help promulgate and further Mr. Haass' plan without giving some thought on your own part as to the soundness of the plan, where that plan was going to affect the stockholders of your own bank, were you?

Mr. BALLANTYNE. Why, the plan seemed very sound to me.

Mr. PECORA. Then you must have discussed the plan in its entirety?

Mr. BALLANTYNE. Oh, yes.

Mr. PECORA. And approved of it?

Mr. BALLANTYNE. Yes.

Mr. PECORA. You did not merely give your consent to this plan and become a party to it because of a desire on your part to help out an old friend?

Mr. BALLANTYNE. Well, practically it was.

Mr. PECORA. What?

Mr. BALLANTYNE. Very largely induced by that.

Mr. PECORA. What, to help out an old friend?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And the old friend was Julius Haass?

Mr. BALLANTYNE. Yes.

Mr. PECORA. The executive head of a rival bank?

Mr. BALLANTYNE. Oh, well, he never was a rival bank of mine.

Mr. PECORA. One of the things you said it was sought to accomplish was to eliminate competition. I presume that meant also competition among the five banks that this holding company was to acquire?

Mr. BALLANTYNE. One Senator here will agree that Julius Haass was never responsible for unwise banking.

Mr. PECORA. That is not the point, Mr. Ballantyne.

Mr. BALLANTYNE. I think it is. But I am not sure. He was not a highly competitive banker. He is a very sound banker.

Mr. PECORA. Well, a sound banker may compete with other banks?

Mr. BALLANTYNE. Not wisely.

Mr. PECORA. And still be a sound banker?

Mr. BALLANTYNE. Not wisely, and be a sound banker, Mr. Pecora.

Mr. PECORA. How is that?

Mr. BALLANTYNE. I think not wisely.

Mr. PECORA. Competition can be wise as well as unwise?

Mr. BALLANTYNE. I am speaking about unwise competition. It makes quite a difference.

Mr. PECORA. Mr. Ballantyne, you said that one of the things sought to effectuate through the creation of this holding company which was to acquire all of the capital stock of these 5 banks was to eliminate competition.

Mr. BALLANTYNE. Unwise competition.

Mr. PECORA. Unwise competition?

Mr. BALLANTYNE. Yes.

Mr. PECORA. All right. Your bank, namely, the Bank of Michigan, was one of the banks included in this plan; so was the bank of which Mr. Haass was the executive head?

Mr. BALLANTYNE. The Bank of Michigan was never my bank in the sense——

Mr. PECORA (interposing). You were chairman of the board, though.

Mr. BALLANTYNE. I know—with no power.

Mr. PECORA. With no power?

Mr. BALLANTYNE. No; that I know of.

Senator COUZENS. That is a new one, because I understood that somebody testified here the other day that the man who was chairman was being promoted after being the president.

Mr. BALLANTYNE. Well, I never saw any power, if the Senator will permit.

Senator COUZENS. You mean us to understand then that there is no power in the chairman or vice chairman?

Mr. BALLANTYNE. A chairman or vice chairman can have as much or as little power as the bylaws give him. I think Mr. Pecora will agree with me.

Mr. PECORA. I am not a banker and never have been, Mr. Ballantyne.

Mr. BALLANTYNE. I think there are all sorts of chairmen of boards. Sometimes people are demoted to the chairmanship of the board,

and the legal control vested in the president, and vice versa. It always depends on the man, to a large extent, and the circumstances.

Mr. PECORA. Mr. Ballantyne, are you so modest that you want this committee to believe that as chairman of the board of the Bank of Michigan you occupied merely a nominal position, with no real power?

Mr. BALLANTYNE. My dear sir, I am trying to tell you that I was getting my ship into port, with the hope and belief that I would get out of business entirely, just as soon as possible. That is well known to all my associates. I stayed with that bank to steady the situation for a little while, not meaning to go along very far with it.

Senator COUZENS. I am interested in that, because you say you wanted to get your ship into port. You must have been in danger.

Mr. BALLANTYNE. Do you have to be in danger to get your ship into port?

Senator COUZENS. I think, when you stayed at the helm, as you did, to get your ship into port, there must have been some reason for it.

Mr. BALLANTYNE. There was a reason for it.

Senator COUZENS. What was it?

Mr. BALLANTYNE. There was a schism in our own board.

Senator COUZENS. What was it?

Mr. BALLANTYNE. We had been going through perilous times. Then was the peril, when the orgy of speculation was on.

Mr. PECORA. What were the perilous times you refer to?

Mr. BALLANTYNE. When the orgy was on in New York.

Mr. PECORA. You mean the stock speculation or gambling orgy?

Mr. BALLANTYNE. Yes.

Mr. PECORA. You mean it centered in New York. It was on all over the country, was it not?

Mr. BALLANTYNE. I will say it was.

Mr. PECORA. Detroit was engulfed in it too, was it not?

Mr. BALLANTYNE. Engulfed in it, but my bank was not.

Senator COUZENS. Then, why did you have to stay at the helm to get it into port, if your bank was not involved in it? I do not understand that.

Mr. BALLANTYNE. I think Mr. Pecora does. Do you, Mr. Pecora?

Mr. PECORA. The Senator is asking you the question.

Mr. BALLANTYNE. Are you asking me a question?

Senator COUZENS. Yes. I am asking, if your bank was not involved, as you stated, in this speculation, why you had to stay at the helm to get into port.

Mr. BALLANTYNE. My bank, or the bank which I call mine, which I organized, is on record here with the Comptroller's office, and if you can see any involvement in that picture, I will be much surprised, Senator.

Senator COUZENS. I am not charging that.

Mr. BALLANTYNE. It was a case of a schism in the board of the bank, and maybe a little fatigue on my part. I did not want to liquidate the bank, so I thought this was a judicious merger with a bank with a great many branches already formed. We had had no branches.

Senator COUZENS. In that connection, I invite your attention to the language in the circular, which says (reading):

In order that each customer of these allied institutions may continue to enjoy all existing connections and facilities, it is planned to carry on each institution as at present organized.

How did you contemplate bringing around these economies, in the elimination of competition, if you contemplated carrying on these institutions as organized?

Mr. BALLANTYNE. Senator, it is a well-known fact that it was not an uncommon thing in the city of Detroit for four competing banks in that very group to have four branches, on four corners of an intersection. That was one thing. There was no more use for four banks in that block, four competing banks in that block, than there was for the man in the moon.

Senator COUZENS. I will agree with that. You could not have carried on "as at present organized" if you were to eliminate branches, could you?

Mr. BALLANTYNE. I think in a general way: yes. Each was going to retain its character and individuality. I understood that.

Mr. PECORA. Mr. Ballantyne, prior to the acquisition of the capital stock of these five banks by the Detroit Bankers Co., the stockholders of each one of those banks, as such stockholders, had the power to elect the boards of directors of their respective banks, did they not?

Mr. BALLANTYNE. Yes; I believe so.

Mr. PECORA. And that is an important power and right attaching to a stockholder of any corporation, and particularly a banking corporation, is it not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. By the scheme or plan upon which the Detroit Bankers Co. was created, these stockholders of the constituent banks that became the units of this holding company were deprived, at least for the first 5 years, of the right to elect directors of their own banks, were they not?

Mr. BALLANTYNE. I think not. They were electing them when I left the Bankers Co.

Mr. PECORA. Elected by whom?

Mr. BALLANTYNE. Of course, they were elected by the Detroit Bankers Co.

Mr. PECORA. And the Detroit Bankers Co. elected these directors through the control vested in the 12 trustees?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Who had all the voting power of the first 5 years.

Mr. BALLANTYNE. I fancy that is true, Mr. Pecora.

Mr. PECORA. So that the stockholders of these banks that became units of the holding company were given no voice either in the election of the directors of the holding company or in the election of the directors of the unit banks, at least for the first 5 years.

Mr. BALLANTYNE. I fancy that is true.

Mr. PECORA. That was a radical departure from the scheme of operation of those unit banks prior to the merger, was it not?

Mr. BALLANTYNE. Well, in the law it would be.

Mr. PECORA. Wasn't it in fact as well as in law?

Mr. BALLANTYNE. I think not, Mr. Pecora. I think the directors that were operating those banks when I left the Bankers Co. were practically the same people.

Mr. PECORA. But whenever changes were made they were made upon the judgment and decision of the holders of the 120 shares of trustee stock, worth \$1,200, issued by the holding company; isn't that so?

Mr. BALLANTYNE. To some extent I think maybe that is true.

Mr. PECORA. Is there any doubt that it is true?

Mr. BALLANTYNE. I cannot recall right at this moment any changes.

Mr. PECORA. I will show you later that there were changes.

Mr. BALLANTYNE. There were changes?

Mr. PECORA. Yes.

Mr. BALLANTYNE. There probably were. I do not recall them.

Mr. PECORA. I want to show you what purports to be a photostatic reproduction of a certificate issued by the Detroit Bankers Co. for its trustee shares. Will you look at it and tell me if you recognize it to be a true and correct copy of such certificate?

Mr. BALLANTYNE (after conferring with an associate). I believe that is all right, Mr. Pecora.

Mr. PECORA. I offer it in evidence.

Senator COUZENS. Let it be entered.

(Copy of certificate for trustee shares, Detroit Bankers Co., was received in evidence, marked "Committee Exhibit No. 4, Jan. 24, 1934", and the same will be found at the conclusion of today's proceedings.)

Mr. PECORA. It will be noted that on the back of the certificate just received in evidence as exhibit no. 4 of this date are printed the provisions of articles 5 and 9 of the articles of association of the Detroit Bankers Co., respecting the powers of the holders of the trustee shares.

I show you what purports to be a specimen copy of certificate of shares of the common stock issued by the Detroit Bankers Co. Will you look at it and tell me if you recognize it to be a true and correct copy of those certificates of common stock?

Mr. BALLANTYNE (after conferring with an associate). Yes, sir.

Mr. PECORA. I offer that in evidence.

Senator COUZENS. The same will be entered.

(Copy of certificate of shares of common stock, Detroit Bankers Co., was received in evidence, marked "Committee Exhibit No. 5, Jan. 24, 1934," and the same will be found at the conclusion of today's proceedings.)

Mr. PECORA. I want to call attention on the record to the fact that on the back of this exhibit marked "Committee's Exhibit No. 5" of this date there are printed the provisions of article IX of the articles of association of the Detroit Bankers Co. relating to the statutory liability.

Senator COUZENS. Is there any reference to the trusteeship there?

Mr. PECORA. And also article V relating to the trusteeship—articles V and IX, defining the rights, powers, and duties of the trustees.

It has already been shown that the authorized capital structure of this Detroit Bankers Co. was \$50,000,000, exclusive of the 120

trustee shares represented by 2,500,000 shares of common stock, each with a par value of \$20.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Of that amount it was contemplated to issue \$35,000,000 worth in exchange for the shares of capital stock of banks to be acquired by the holding, is that right?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And the remaining \$15,000,000 worth of common capital stock was to remain in the treasury of the Detroit Bankers Co.?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. Was any part of the \$15,000,000 worth of that treasury stock ever issued?

Mr. BALLANTYNE. I do not believe so, Mr. Pecora. (After conferring with an associate.) Yes; I believe there were, in the acquisition of some metropolitan banks. Some shares were exchanged there. I cannot give you the amounts nor the occasions.

Mr. PECORA. What is, at the present time, the status of the Detroit Bankers Co.?

Mr. BALLANTYNE. I do not know.

Mr. PECORA. It is in receivership, is it not?

Mr. BALLANTYNE. Oh, yes. It is in receivership.

Mr. PECORA. A receiver was appointed for it on or about March 17, 1933.

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. At that time how many shares of the common capital stock were outstanding?

Mr. BALLANTYNE. From my memory, Mr. Pecora, I cannot tell you.

Mr. PECORA. Perhaps you can ascertain from some of your associates, or refresh your recollection by the records.

Mr. BALLANTYNE. Approximately 1,775,000 shares.

Mr. PECORA. And the rest remained in the treasury?

Mr. BALLANTYNE. Yes.

Mr. PECORA. It is the fact, is it not, that very shortly after the incorporation of the Detroit Bankers Co. on January 8, 1930, that company acquired, by exchange for its own shares, all of the outstanding capital stock of the five banks that are named in the circular marked "Committee's Exhibit No. 3"?

Mr. BALLANTYNE. Substantially all.

Mr. PECORA. Is it the fact that at the time of the acquisition of these 5 banks by the Detroit Bankers Co. the Detroit Bankers Co. acquired control or ownership through acquisition of the capital stock thereof, of 5 banks which had a combined capital surplus and undivided profits of approximately \$90,000,000 and resources of about \$725,000,000?

Mr. BALLANTYNE. That is the Peoples Wayne, is it?

Mr. PECORA. That is all the five banks.

Senator COUZENS. That is what is contained in the circular and record.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Was it the fact that at that time these five banks served approximately 900,000 depositors and clients?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Principally in the city of Detroit?

Mr. BALLANTYNE. Yes.

Mr. PECORA. By such acquisition of the capital stock of these banks, this holding company came into control of banking resources approximately 60 percent of the total banking resources of the city of Detroit?

Mr. BALLANTYNE. I believe that is so, Mr. Pecora.

Senator COUZENS. In that connection, Mr. Ballantyne, I would like to ask you if you think it was a well-considered policy to put \$725,000,000 in resources and \$90,000,000 of capital in the hands of 12 men for a period of 5 years on an investment of \$1,200?

Mr. BALLANTYNE. I think——

Senator COUZENS. I am asking him as a policy. I am not asking him for facts, and I do not care to have anybody else's views about that.

Mr. BALLANTYNE. Do I think it was wise?

Senator COUZENS. Yes.

Mr. BALLANTYNE. I thought at the time it was. I do not know whether I do today or not.

Senator COUZENS. To put in the hands of 12 men the handling of over \$800,000,000 for an investment of \$1,200?

Mr. BALLANTYNE. Better 12 than 100, Senator.

Senator COUZENS. Better 12 than 100?

Mr. BALLANTYNE. Yes.

Senator COUZENS. And for an investment of \$1,200?

Mr. BALLANTYNE. Of course, that does not——

Senator COUZENS. That is all these trustee stocks amounted to.

Mr. BALLANTYNE. I am not defending this thing. I was not the author of it at all. I do not know that it was wise.

Mr. PECORA. You thought it was wise at the time you lent yourself to it.

Mr. BALLANTYNE. I thought it was wise at the time to have those banks form a mutuality of interest and eliminate unnecessary costs and unnecessary wildcat competition, of which there was a lot in the city of Detroit. But we are always wise afterward, you know.

Mr. PECORA. At the present time you have some doubts as to the wisdom of the plan?

Mr. BALLANTYNE. Mr. Pecora, if I were asked my viewpoint at the present time, I would say to you that I do not think anything has been proven in Detroit.

Mr. PECORA. You do not think anything has been what?

Mr. BALLANTYNE. Proven. I do not think the wisdom or unwisdom of group banking, or of branch banking, or of unit banking has been demonstrated in Detroit.

Mr. PECORA. You think the events since January 8, 1930, have shed no light upon the wisdom or lack of wisdom of this plan?

Mr. BALLANTYNE. Not in Detroit.

Mr. PECORA. This plan was operative in Detroit.

Mr. BALLANTYNE. Yes; but it was conceived rather hastily, and there were unknown factors at the time it was consummated. One has to experience such an operation to learn.

Mr. PECORA. Now, I want to refer again to that statement in this circular marked "Committee's Exhibit No. 3", which reads as follows [reading]:

It is proposed that dividends be paid upon the common stock of the new company in the aggregate amount of 17 percent per annum payable quarterly.

Mr. BALLANTYNE. Yes.

Mr. PECORA. How was the dividend rate fixed at 17 percent, as far back as October 1929, or 3 months prior to the actual creation of this holding company?

Mr. BALLANTYNE. Mr. Pecora, I could say something, but I do not want to.

Mr. PECORA. I would like to have you answer my question.

Mr. BALLANTYNE. Mr. Haass and Mr. Mark Wilson virtually decided that matter, and I think it was determined——

Mr. PECORA. Mr. Haass and who else?

Mr. BALLANTYNE. Mr. Mark Wilson.

Mr. PECORA. Mr. Mark Wilson?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Mr. Mark Wilson was not one of the organizers of this company, was he?

Mr. BALLANTYNE. No; but he was a very, very close adviser of Mr. Haass at the time, and an examiner, and he knew what the banks were, or thought he did.

Mr. PECORA. What position did Mr. Mark Wilson have in the Detroit Bankers Co. at the outset—any at all?

Mr. BALLANTYNE. I do not know. He was made a vice president, I believe.

Mr. PECORA. He was not one of the 12 founders of the company?

Mr. BALLANTYNE. No.

Mr. PECORA. It is fair to regard these 12 trustees as the founders of this company, is it not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. You were one of those 12?

Mr. BALLANTYNE. I was one of them.

Mr. PECORA. Mr. Mark Wilson was not.

Mr. BALLANTYNE. No.

Mr. PECORA. Then why do you say that this dividend of 17 percent per annum——

Mr. BALLANTYNE. I will tell you why.

Mr. PECORA. Wait a minute. Why do you say, then, that this dividend of 17 percent per annum was fixed within 3 months before the creation of the company itself, by two men; namely, Mr. Haass and Mr. Wilson. Mr. Wilson not being one of the trustees?

Mr. BALLANTYNE. I am just thinking that they had something to do with it.

Mr. PECORA. What is that?

Mr. BALLANTYNE. I will cite my own experience with this. I was chairman of the board of the Bank of Michigan. The executive control was in Mr. Palmer Livingstone's hands. Mr. Clark called me in one day and wanted to discuss this matter with me, about this bank coming in.

Mr. PECORA. By Mr. Clark, you mean Mr. Emory W. Clark, one of these trustees?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Who was at that time chairman of the board of the First National Bank in Detroit?

Mr. BALLANTYNE. He was an executive. He had been negotiating with Julius Haass for a long time about it, and he wanted me to pass judgment on it, and my answer to him was at that time, "Mr. Clark, this is not my bank. The Livingstone interest is very large, and we will have to let Palmer Livingstone negotiate this"; which he did.

Mr. PECORA. Mr. Livingstone—

Mr. BALLANTYNE. What part he paid in the determining of these ratios I do not know. I never was present at any meeting. Mr. Pecora.

Mr. PECORA. I am not talking about or discussing the ratios of exchange of capital stock of the Detroit Bankers Co. for the capital stock of these five banks.

Mr. BALLANTYNE. You are talking about the dividend.

Mr. PECORA. I am talking about the fact that fully 3 months before the Detroit Bankers Co. actually came into legal existence, this circular, marked "Committee's Exhibit No. 3", was issued, addressed to the stockholders of the five banks in question, and they were advised in this circular that the Detroit Bankers Co. would pay an annual dividend at the rate of 17 percent, payable quarterly.

Mr. BALLANTYNE. Yes.

Mr. PECORA. And your name is signed to this circular.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Which was addressed to the stockholders of the bank which you served as chairman of the board at that time.

Mr. BALLANTYNE. Yes; I know all of that.

Mr. PECORA. I want you to tell the committee, if you please, by what process of reasoning, calculation, or otherwise, the 12 founders of the Detroit Bankers Co., fully 3 months before that company came into official being or legal existence, fixed the dividend rate which the company would pay to its stockholders at 17 percent per annum.

Mr. BALLANTYNE. I would like to answer you, Mr. Pecora, but I cannot.

Senator COUZENS. Do you know what contribution the Bank of Michigan was to make to this 17-percent dividend?

Mr. BALLANTYNE. You are asking me about the earnings?

Senator COUZENS. I am asking you what contribution the Bank of Michigan was to make to this 17-percent dividend rate.

Mr. BALLANTYNE. Undoubtedly the thing was determined on the earnings.

Mr. PECORA. Do you know whether any survey was made of the earnings of these five banks?

Mr. BALLANTYNE. Oh, yes; I am sure sure of that.

Mr. PECORA. There was?

Mr. BALLANTYNE. Oh, yes.

Mr. PECORA. By these 12 founders or trustees?

Mr. BALLANTYNE. I do not know how many of them were in that part of it. I was not at that time. Mr. Livingstone acted for the Bank of Michigan.

Mr. PECORA. Was a report made prior to October 5, 1929, by whoever made that survey, or caused it to be made, to all the 12 trustees, as to the results thereof?

Mr. BALLANTYNE. Yes; and there were differences of opinion.

Mr. PECORA. What was the range of opinion expressed in connection with those differences of opinion?

Mr. BALLANTYNE. I could not tell you in exact figures.

Mr. PECORA. Tell us approximately.

Mr. BALLANTYNE. I would not dare to. That is 4 or 5 years ago, you know, and I could not recall. I am not withholding anything from you, Mr. Pecora. I just do not remember.

Mr. PECORA. What were the factors that induced you, as one of the 12 founders or trustees of the Detroit Bankers Co., to agree in advance to the fixation of the dividend rate to be paid by the Detroit Bankers Co. at 17 percent?

Mr. BALLANTYNE. At that time, of course, we were in a very desperate depression. You know that. You have cited that. Who knew how long that was going to last? Certainly we got no counsel from headquarters.

Mr. PECORA. What do you mean by headquarters?

Mr. BALLANTYNE. From Washington. Prosperity was just around the corner. We did not know how long it was going to last. Who possibly knew?

Senator COUZENS. Prosperity was not just around the corner on October 5, 1929, because the bank collapse had not taken place.

Mr. PECORA. Nor the stock-market collapse.

Mr. BALLANTYNE. What is that?

Mr. PECORA. The stock-market collapse had not taken place by October 5, 1929.

Mr. BALLANTYNE. No.

Mr. PECORA. Which is the date of this circular.

Senator COUZENS. So that there was no advice from Washington about recovery being just around the corner on October 5, 1929.

Mr. BALLANTYNE. I am not saying specifically as to dates, but nobody dreamed we were going into this kind of a depression. I think I guessed as far as anybody about it, but I did not guess what we actually got into, Mr. Pecora. An angel from heaven could not have guessed it. We knew of definite economies that could be made. There was a definite earning power. I did not go into the details with these men, but I suspect that is how they arrived at the dividend rate.

Mr. PECORA. On October 5, 1929, it was the depression that was just around the corner, but nobody knew it. Isn't that right?

Mr. BALLANTYNE. I guess that is true.

Mr. PECORA. And the sun of prosperity was shining brightly on October 5, 1929, when this dividend rate of 17 percent was fixed. Is that right?

Mr. BALLANTYNE. I do not know that it was.

Mr. PECORA. There was no depression on then.

Mr. BALLANTYNE. There were elements of it.

Mr. PECORA. If it was, it was around the corner where nobody could see it plainly at that time, isn't that so?

Mr. BALLANTYNE. I think maybe so.

Mr. PECORA. The clouds began to obscure that sun in the latter part of October 1929, did they not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Nevertheless, when the company was organized on January 8, 1930, and for the year 1930, with the clouds of the depression in the skies and clearly visible to everybody, this dividend policy or rate of 17 percent, fixed in good times, was adhered to, was it not, by this group?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Was that wise, in your opinion?

Mr. BALLANTYNE. I would not hold any brief for that. I have never been in favor of paying dividends that were not wise, and I cut the dividend of that operation.

Mr. PECORA. Not in 1930.

Mr. BALLANTYNE. I did it in 1930.

Mr. PECORA. Did you? Well, now, let us see.

Mr. BALLANTYNE. 1931. (After conferring with an associate.) 1932, rather. I beg your pardon. I was thinking of the gap. The first year I was in I did it. Julius was in for a year. One can only speak for himself.

In answer to the Senator here, in respect to these 12 men, each of those men, I think the record will show, was a very large stockholder in the banking group.

Mr. PECORA. Did they remain stockholders up to the time that the company went into receivership, do you know?

Mr. BALLANTYNE. I did not.

Mr. PECORA. How about some of these others?

Mr. BALLANTYNE. I do not think anyone else left but me.

Mr. PECORA. Do you know whether any of the other 12 trustees or founders held on to their substantial stockholdings of this company up to the time when the company went into receivership in March 1933?

Mr. BALLANTYNE. From all I know, I would say yes; but that would be a mere guess.

Senator COUZENS. I still raise the same issue, because these gentlemen you refer to were stockholders of the units and not stockholders of the Detroit Bankers Co.

Mr. BALLANTYNE. I see what your point is.

Senator COUZENS. So, for the mere putting up of \$1,200—which the facts show they did not put up, as a matter of fact—they got control of nearly 1 billion dollars, and that is what is generally referred to as the handling of other people's money. By the mere acquisition of \$1,200 worth of trustee shares these men got control of nearly 1 billion dollars to do as they pleased with for a period of 5 years. I would just like to know if you, as an old-time banker in Detroit, endorse that as a principle.

Mr. BALLANTYNE. Not just the way you put it, Senator.

Senator COUZENS. I am putting it as a fact.

Mr. BALLANTYNE. Maybe it means that in substance. I do not know. I am not very well versed in legal phraseology.

Senator COUZENS. I am not either, but it does not require a lawyer—even some of the crooked ones can understand that.

Mr. PECORA. Are you talking about bankers now, Senator?

Senator COUZENS. No; lawyers.

Mr. PECORA. Now, Mr. Ballantyne, let me read to you the following excerpt from the circular marked "Committee's Exhibit No. 3" in evidence [reading]:

In order that each customer of these allied institutions—

That is, referring to the five original banking units [continuing reading]:

may continue to enjoy all existing connections and facilities, it is planned to carry on each institution as at present organized.

Was that principle carried out?

Mr. BALLANTYNE. No.

Mr. PECORA. It was not?

Mr. BALLANTYNE. No.

Mr. PECORA. To what extent was it departed from?

Mr. BALLANTYNE. To this extent: It is like everything else. You start off with one idea, and circumstances force others on you. That very matter of branches came up for discussion frequently, and it was found that the old loyalties persisted, and everyone wanted the other fellow's branch closed rather than his own. I suppose that was human nature. That was what determined them on those later mergers, later consolidations of the Bank of Michigan with the Peoples Wayne Bank, so that they could make a clean sweep of it. As far as my knowledge goes, that is why it was done.

Mr. PECORA. Were those unit banks that came into this Detroit holding company through the acquisition of their capital stock permitted to continue in operation under the policies formulated by the officers of those unit banks, the officers and directors of those unit banks, or were those unit banks directed, as to their policies, and so forth, by the officers and directors of the Detroit Bankers Co.?

Mr. BALLANTYNE. I think not. There was no coercion that I know anything about; no.

Mr. PECORA. Will you be good enough to look at this chart [indicating a large chart mounted at the head of the committee table]?

Mr. BALLANTYNE. Yes.

Mr. PECORA. It purports to be an outline of the various units that were acquired from time to time by the Detroit Bankers Co.

Mr. BALLANTYNE. Yes.

Mr. PECORA. That includes banking units and nonbanking units?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Will you look at it and tell us if you can say that it is a correct representation of the various units, both banking and nonbanking, which ultimately were acquired, in whole or in part, through the acquisition of capital stock by the Detroit Bankers Co.? Look at it closely. You may also seek the advice on that of any of your associates. This is as of the time when it went into receivership; in other words, at the end.

Mr. BALLANTYNE (standing before map on easel). It does not seem to be correct to me. For instance, there was a Detroit Trust Co. and a former Detroit Securities Co. I don't think this one [pointing on map], for instance, was put into it.

Mr. PECORA. Well, those colored green on the map were eliminated by the merger, you understand.

Mr. BALLANTYNE. All right.

Mr. PECORA. They had formerly been entities, but they were eliminated by the merger into the Detroit Trust Co.

Mr. BALLANTYNE. I see.

Senator COUZENS. You understand that those in green were eliminated by the merger.

Mr. BALLANTYNE. Let me look over the map, and I will see what I can make out of it.

Mr. PECORA. All right. Please do so.

Mr. BALLANTYNE (after looking at the map and consulting with other witnesses present). That is substantially right, I think.

Mr. PECORA. Now, the chart as you have examined it and conferred about its correctness with quite a number of your associates, is correct, is it?

Mr. BALLANTYNE. It appears to be correct; yes.

Mr. PECORA. Mr. Chairman, I ask that that map be marked in evidence.

Senator COUZENS (presiding). That may be done.

(A large chart entitled "Organization of Detroit Bankers Co.", was marked "Committee Exhibit No. 6, Jan. 24, 1934"; and a copy of it, reduced in size, is made a part of the record.)

Mr. PECORA. Mr. Ballantyne, I show you a little booklet bearing the inscription on the cover page, "Detroit Bankers Co.", and purporting to be the consolidated balance sheet of wholly owned banks of the Detroit Bankers Co. as of December 31, 1929; and also purporting to show the officers and directors of the Detroit Bankers Co., and the officers and directors of the wholly owned banks referred to. Will you look at it and tell me if you recognize it to be a true and correct copy of such pamphlet gotten out by the Detroit Bankers Co.?

Mr. BALLANTYNE (after looking at the booklet). I would say that is a true and correct copy.

Mr. PECORA. Mr. Chairman, I offer that in evidence.

Senator COUZENS (presiding). It may be entered in the record.

(A printed pamphlet entitled "Detroit Bankers Co., Consolidated Balance Sheet of Wholly Owned Banks, as of Dec. 31, 1929, etc.", was marked "Committee Exhibit No. 7, Jan. 24, 1934.")

Mr. PECORA. I notice on page 3 of this pamphlet, which has been received in evidence as committee's exhibit no. 7, the following footnote:

These figures do not include the resources of the Detroit Co., nor of the First National Co. of Detroit.

Do you know why in the consolidated balance sheet of these wholly owned banks there was not included the balance sheet of these Detroit Co. nor of the First National Co. of Detroit?

Mr. BALLANTYNE. The First National Co. of Detroit was included in our statements, so I am told.

Mr. VERHELLE. This is earlier.

Mr. PECORA. What was that?

Mr. VERHELLE. The reason was that the Detroit Co. was owned by the Detroit Trust Co., and—

DETROIT BANKERS COMPANY



DETROIT
BANKERS
SAFE DEP.
COMPANY

ASSETS
REALIZATION
COMPANY
FORMER
1ST NATL CO

FIRST
NATIONAL
COMPANY
DETROIT

THE
DETROIT
COMPANY

STATUS —

- A - RECEIVED
- B - CONSERVATOR
- C - CLOSED
- D - RE-OPENED
- E - LIQUIDATING
- F - OPERATING
- G - REORGANIZED
- H - (DEPOSITS ASSUMED 100% BY BANKS OUTSIDE DETROIT BANKERS CO GROUP)

FINAL ORGANIZATION
ELIMINATED BY MERGER
PARTIALLY OWNED

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Mr. PECORA (interposing). Just wait one minute. I think we will administer the oath to you.

Senator COUZENS (presiding). Stand, hold up your right hand, and be sworn. You solemnly swear that you will tell the truth, the whole truth and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. VERHELLE. I do.

**TESTIMONY OF JOSEPH F. VERHELLE, GROSSE POINTE, MICH.,
SENIOR OFFICER OF THE MANUFACTURERS NATIONAL BANK
OF DETROIT**

Mr. PECORA. Please state your name, residence, and occupation.

Mr. VERHELLE. My name is Joseph F. Verhelle; 1331 Three Mile Drive, Grosse Pointe, Mich.; I am senior officer of the Manufacturers National Bank of Detroit.

Mr. PECORA. Were you connected with the Detroit Bankers Co. in any capacity heretofore?

Mr. VERHELLE. I was connected as comptroller from February 29, 1930, until the beginning of November of 1932. This statement, while it was put out before I had anything to do with the Detroit Bankers Co., yet in answer to your question I will say, the Detroit Co. was owned by the Detroit Trust Co., and that ownership of the First National Bank was very much in doubt.

Mr. PECORA. Well, why were not the balance sheets of these two companies included in the consolidated balance sheet embodied in committee exhibit no. 7?

Mr. VERHELLE. I cannot answer for this one, but it was embodied in future statements, and I can answer for those. I presume the question is the same in both cases, so that my answer to the latter statement will take care of this one. The balance sheet of the Detroit Co., if it had been included in later statements, would have been misleading inasmuch as it was owned and the value of it already included in the assets of the Detroit Trust Co. The theory upon which this statement was published was that the stockholders were being informed on the holdings of the Group Co. There were two ways to publish a balance sheet: One was, to show a balance sheet of the Detroit Bankers Co., merely indicating that they held so many shares of this stock, and so many shares of something else, against which they had outstanding a certain amount of their own stock. That would have been a rather meaningless statement, because after all it was the statements behind that stock that were presumed to amount to anything. And the Detroit Co. was already included, insofar as its value was concerned, and the First National Co. being worthless, were not included in subsequent balance sheets.

Mr. PECORA. All right. Now I will resume my examination of Mr. Ballantyne.

TESTIMONY OF JOHN BALLANTYNE—Resumed

Mr. PECORA. Now, Mr. Ballantyne, before I asked you to identify the chart, which has since been marked in evidence as "Committee Exhibit No. 6", I started to question you on the subject of whether or

not the five original unit banks of the holding company were permitted to carry on as they had been carried on and conducted immediately prior to their acquisition by the Detroit Bankers Co.?

Mr. BALLANTYNE. Oh, no.

Mr. PECORA. They were not?

Mr. BALLANTYNE. Not when they were consolidated. Of course not.

Mr. PECORA. What changes or departures were made after they had been acquired by the Detroit Bankers Co.?

Mr. BALLANTYNE. The Peninsular Co. and the Bank of Michigan joined in the consolidation with the People's Wayne County Bank. I, however, was asked to go over to the First National Bank as chairman of the board, which I did. I think those were all the banks that were changed.

Mr. PECORA. I am not asking about changes effected by mergers, acquisitions, or consolidations. My question was directed particularly to the proposition of whether or not the banking units of the holding company were permitted to conduct their respective business affairs in the same manner in which they had been conducted prior to their acquisition by the holding company.

Mr. BALLANTYNE. Of course, when the acquisition took place, when that consoliation took place, those banks were closed. As to the principal banking officers of the Bank of Michigan and the Peninsular State Bank, those banks were closed.

Senator COUZENS. I think there is a misunderstanding here.

Mr. BALLANTYNE. It may be that I have misunderstood it.

Senator COUZENS. How long after the organization of the Detroit Bankers Co. was it before this consolidation took place?

Mr. BALLANTYNE. I would have to look that up.

Mr. VERHELLE. It was 4 months.

Senator COUZENS. Mr. Pecora's question, Mr. Ballantyne, was confined to those 4 months before the consolidation.

Mr. BALLANTYNE. Oh. Yes; there was no pressure there that I know of.

Mr. PECORA. After the acquisition of those banking units, or unit banks, by the holding company, were the officers and directors of each unit bank permitted to conduct and direct the operations, activities, business, and policies of their respective banks?

Mr. BALLANTYNE. In a general way I would say they were.

Mr. PECORA. Was their control and direction interfered with or modified or changed in any way by the officers, trustees, or directors of the Detroit Bankers Co.?

Mr. BALLANTYNE. I cannot think of any way in which they were interfered with.

Mr. PECORA. Well, now, after the acquisition of those unit banks by the holding company, did any representatives of the holding company sit in at meetings of boards of directors of such unit banks?

Mr. BALLANTYNE. Not when you talk of the unit banks. Are you referring to the five?

Mr. PECORA. I mean all the unit banks which either at the outset or subsequently or eventually were acquired in whole or in part by the holding company, which was the Detroit Bankers Co.

Mr. BALLANTYNE. Well, now, I think there might have been one or two cases, but I could not name them, where representation was had on the boards.

Mr. PECORA. Let me call your attention, Mr. Ballantyne, to the following resolution that appears to have been adopted by the board of directors of the Detroit Bankers Co. at a meeting of that board held on December 23, 1930, at which the following directors were present according to the minutes of that meeting, a photostatic copy of which I have before me.

Mr. BALLANTYNE. All right.

Mr. PECORA. There are shown as being present the following-named gentlemen: John Ballantyne, William T. Barbour, John R. Bodde, McPherson Browning, Herbert L. Chittenden, Julius H. Haass, D. Dwight Douglas, T. W. P. Livingstone, Wesson Seyburn, Ralph Stone, and Mark A. Wilson.

The resolution I have reference to reads as follows, being under the caption "Authority to vote stock at annual meeting of the subsidiaries":

In connection with the annual meetings of the stockholders of the various units of the Detroit Bankers Co. to be held in January of 1931, Mr. Chittenden offered and moved the adoption of the following resolution:

"Resolved, That the following several individuals be, and they are hereby, authorized to attend the respective annual meetings of stockholders set opposite their respective names, to be held at such date, time, and place in January of 1931, as is fixed by the bylaws of the various institutions:

"First National Bank in Detroit, John Ballantyne; Detroit Trust Co., Ralph Stone; Peoples Wayne County Bank of Detroit, Julius H. Haass; Peoples Wayne County Bank of Hamtramck, J. C. Friedel; Peoples Wayne County Bank, Highland Park, Henry A. Haigh; Peoples Wayne County Bank, Dearborn, William H. McClenahan; Peoples Wayne County Bank, Wyandotte, Henry Roehring; Peoples Wayne County Bank, Ecorse, Ignatius J. Sallotte; Peoples Wayne County Bank, River Rouge, A. H. Moody; Grosse Pointe Savings Bank, Grosse Pointe, Frank W. Hubbard; River Rouge Savings Bank, River Rouge, H. C. Barrett; Detroit Co., Lawrence K. Butler.

"And they and each of them are fully authorized and empowered to vote at such meetings, respectively, and any adjournments thereof, the shares of stock owned by this company in said banks, respectively, upon the election of directors and upon any other motion or resolution and the transaction of any other business which may be presented to or may come before said meetings respectively."

The motion being duly seconded, the resolution was adopted.

Mr. BALLANTYNE. I recall that.

Mr. PECORA. Now, that indicated that certain directors of the Detroit Bankers Co. were designated to represent the company—

Mr. BALLANTYNE. Not only the directors but—

Mr. PECORA (continuing). Wait a minute—to represent the company at annual meetings of stockholders of the unit banks.

Mr. BALLANTYNE. Yes.

Mr. PECORA. And to vote.

Mr. BALLANTYNE. Certain directors of the holding company and certain directors of the banks. You named some there that were not directors of the holding company at all.

Mr. PECORA. I know that.

Mr. BALLANTYNE. But the voting power was with the holding group.

Senator COUZENS. In the reading of that list it appears that some of those gentlemen were on the boards of the unit banks and some were also on the board of the Detroit Bankers Co.

Mr. BALLANTYNE. Some were; yes.

Senator COUZENS. That was the prior question asked by Mr. Pecora.

Mr. BALLANTYNE. Yes, sir.

Senator COUZENS. How many of those whose names have just been read off were members of boards of directors of unit banks?

Mr. BALLANTYNE. I would have to get them read off again in order to be able to tell you.

Senator COUZENS. Let me see those minutes, please.

Mr. PECORA. Here they are.

Senator COUZENS. Mr. Ballantyne, tell us those on the list that were members of the board of directors of the Detroit Bankers Co. and also on the boards of directors of unit banks?

Mr. BALLANTYNE. Well, Friedel was not, and——

Senator COUZENS. Just tell us the names of those that are.

Mr. PECORA. Sit down at your accustomed place so that all may have the benefit of the loud speaker.

Mr. BALLANTYNE. Let me see. One, two, three——

Senator COUZENS. Just name them.

Mr. BALLANTYNE. John Ballantyne, Ralph Stone, Julius Haass—— is that the list (inquiring of his associate)?

Senator COUZENS. That is the list of proxies that the Detroit Bankers Co. appointed.

Mr. BALLANTYNE. These are members of the Detroit Bank group.

Senator COUZENS. And also members of the units.

Mr. BALLANTYNE. Let me see.

Mr. PECORA. And also directors or officers of the unit banks.

Senator COUZENS. That is what I want. Are there just three of them?

Mr. BALLANTYNE. I wonder if I got that question right? I want to be very careful about it.

Senator COUZENS. Mr. Pecora asked you whether or not it is a fact that some directors of the Detroit Bankers Co., and who were trustees, also sat as members of boards of directors of the unit banks.

Mr. BALLANTYNE. Well, these were not members of boards of the units necessarily, were they?

Senator COUZENS. No; but how many of them were?

Mr. BALLANTYNE. Were members of the boards of the units?

Senator COUZENS. Yes. How many of those who were members of the board of directors of the Detroit Bankers Co., were also members of the board of directors of the unit banks? I understood you to say before it was Ballantyne, Haass, and Stone. Is that correct?

Mr. BALLANTYNE. Well, we were also on the boards of units.

Senator COUZENS. Well, that is enough.

Mr. PECORA. Practically all officers and directors of the Detroit Bankers Co. were also officers or directors of one or more unit banks, isn't that so?

Mr. BALLANTYNE. Well, I fancy I was. I don't know about the others.

Mr. PECORA. Well, Senator Couzens, that fact appears definitely in the pamphlet marked "Committee Exhibit No. 7", it giving the officers and directors for the year 1930 of the Detroit Bankers Co.

and also the names of officers and directors of the different unit banks.

Senator COUZENS. All right.

Mr. PECORA. Now, Mr. Ballantyne, isn't it the fact that the directors of the Detroit Bankers Co., the holding company, at the annual elections of officers and directors of the different unit banks, made up the slates of officers and directors to be chosen at those annual elections of officers and directors of the different unit banks?

Mr. BALLANTYNE. I presume that is probably so.

Mr. PECORA. Well, in order to resolve any doubt about that let me call your attention to the minutes of the annual meeting of the board of directors of the Detroit Bankers Co. held on January 12, 1931, at which the following resolution was adopted, according to the photo-static copy of the minutes of that meeting which I have before me. Under the caption "Directors of affiliated institutions", appears the following minute:

Under date of December 23, 1930, various individuals were authorized by the board to vote the shares owned by this company at the several annual meetings of stockholders. For the purpose of instructing these proxy holders to nominate directors in each instance, the following resolutions were offered and moved for adoption:

Resolved, that John Ballantyne, who has heretofore been appointed proxy to attend the annual meeting of the stockholders of the First National Bank, be and he is hereby directed to nominate the following as directors of the bank.

Then follows a list of names.

Mr. BALLANTYNE. Just so it may be clear on the record that they were not really dictating the board of directors of the First National Bank. They were simply complying in large measure with the First National Bank in respect to its board; and the same would apply with equal force to the others. They were not acting like a czar in the matter, and dictating new boards, or anything of that sort. They were being influenced by the banks themselves, and using judgment, I suppose.

Mr. PECORA. Let me read the resolution giving the names:

Frederick M. Alger, John Ballantyne, Lawrence D. Buhl, Leo M. Butcel—

Senator COUZENS. I do not think you need read all those names, Mr. Pecora.

Mr. PECORA. Doubtless not. But there is quite a list of names. Now, reading further:

Resolved that Ralph Stone, who has heretofore been appointed proxy to attend the annual meeting of the stockholders of the Detroit Trust Company, be and he is hereby directed to nominate the following as directors of the company.

Then follows a long list of names of persons.

Mr. BALLANTYNE. Yes.

Mr. PECORA. And reading further:

Resolved that Julius H. Haass, who has heretofore been appointed proxy to attend the annual meeting of the stockholders of the Peoples Wayne County Bank of Detroit, be and he is hereby directed to nominate the following as directors of the bank.

Then follows a long list of names.

Mr. BALLANTYNE. A very long list.

Mr. PECORA. Yes, a pretty long list.

Mr. BALLANTYNE. Yes.

Mr. PECORA. And I read further:

Resolved that J. C. Friedel, who has been heretofore appointed proxy to attend the annual meeting of the stockholders of the Peoples Wayne County Bank of Hamtramck, be and he is hereby directed to nominate the following as directors of the bank.

Then follows a long list. And I read further:

Resolved that Henry A. Haigh, who has heretofore been appointed proxy to attend the annual meeting of the stockholders of the Peoples Wayne County Bank of Highland Park, be and he is hereby directed to nominate the following as directors of the bank.

Then follows a long list of names. I read further:

Resolved that William H. McClenahan who has heretofore been appointed proxy to attend the annual meeting of the stockholders of the Peoples Wayne County Bank of Deaborn, be and he is hereby directed to nominate the following as directors of the bank.

Then follows a long list of names. And I read further:

Resolved that Henry Roehrig, who has heretofore been appointed proxy to attend the annual meeting of the stockholders of the Peoples Wayne County Bank of Wyandotte, be and he is hereby directed to nominate the following as directors of the bank.

Then follows a long list of names.

Resolved, that Ignatius J. Saliotte, who has heretofore been appointed proxy to attend the annual meeting of the stockholders of the Peoples Wayne County Bank of Ecorse, be and he is hereby directed to nominate the following as directors of the bank.

Then follows a long list of names.

Resolved that Arnott H. Moody, who has heretofore been appointed proxy to attend the annual meeting of the stockholders of the Peoples Wayne County Bank of River Rouge, be and he is hereby directed to nominate the following as directors of the bank.

Then follows a long list of names.

Resolved, that Frank W. Hubbard, who has heretofore been appointed proxy to attend the annual meeting of the stockholders of the Grosse Pointe Savings Bank of Grosse Pointe, be and he is hereby directed to nominate the following as directors of the bank.

Then follows a long list of names.

Resolved that Emmor Bales, who has heretofore been appointed proxy to attend the annual meeting of the stockholders of the River Rouge Savings Bank of River Rouge, be and he is hereby directed to nominate the following as directors of the bank.

Then follows a long list of names.

On motion, being duly seconded, the foregoing resolutions were unanimously adopted.

Now, Mr. Ballantyne, that indicates, does it not, the general policy that was pursued by the Detroit Bankers Co. with regard to naming directors of the various unit banks?

Mr. BALLANTYNE. I wonder if it was not necessary for the stockholders of those banks? They did not use duress, I am sure. There was no duress to it, particularly as to the directors' names. They might have added 1 or 2 to strengthen the situation; but there was no duress used.

Mr. PECORA. What do you mean by that?

Mr. BALLANTYNE. There was no force at all. The regular boards were named, as a general thing, and this was the authority given to those men to vote the stock for the reelection of the banks' boards. Quite generally the same boards were on there. Of course they had the power to change it.

Mr. PECORA. But, Mr. Ballantyne, take your case, for instance. At the time of the creation of the Detroit Bankers Co. were you a director of more than one of the unit banks that came into the holding company?

Mr. BALLANTYNE. No.

Mr. PECORA. After the formation of the Detroit Bankers Co. were you made a director of more than 1 unit bank?

Mr. BALLANTYNE. No; not until I assumed—I don't think I was until I assumed the duties of a man who died.

Mr. PECORA. According to the resolutions that I have read from, which were adopted at the annual meeting of the board of directors of the holding company held on January 12, 1931, you were nominated to be a director of the following unit banks at that time——

Mr. BALLANTYNE. I was put on——

Mr. PECORA. Wait a moment. The First National Bank?

Mr. BALLANTYNE. Yes.

Mr. PECORA. The Peoples Wayne County Bank of Detroit?

Mr. BALLANTYNE. Yes. I have them all here and can read them to you.

Mr. PECORA. I can get them from the record here. What others have you got?

Mr. BALLANTYNE. On April 24 I was appointed president of the Detroit Bankers Co. That was in 1931. On May 1 I was appointed chairman of the board of the First National Bank. On April 24, 1931, I was appointed president of the Detroit Bankers Co. On May 4 I was appointed director of the Peoples Wayne County Bank. On May 12, a director of the First Detroit Co. On June 2, a director of the Detroit Trust Co.; also on the executive committee. October 6, a director of the First National Bank. I think that is all.

Mr. PECORA. Was it the fixed policy of the Detroit Bankers Co. to make up the slates of directors to be elected for the various unit banks at the annual meetings?

Mr. BALLANTYNE. No; I don't think so. They might have interpolated a name.

Mr. PECORA. But they named the directors, did they not?

Mr. BALLANTYNE. Yes; they named the directors that were there. I suppose they exercised the power to reelect the same directors, if that is what you want me to admit. Yes; they did so.

Mr. PECORA. Do you know anything about a service charge made by the Detroit Bankers Co. which was paid to it by the various unit banks?

Mr. BALLANTYNE. I think, Mr. Pecora, I can answer your question. There was a service contract entered into and it involved some expense on the part of the Detroit Bankers Co. For instance, they had a force of expert insurance people over there; tax experts; but the duties were prescribed, I think, in the contract that was

written. They were express or implied, the specific duties were. I think all of them were manifestly good.

Mr. PECORA. I show you what purports to be a photostatic reproduction of that so-called "service contract" that you have referred to. This photostatic copy purports to be a copy of a service contract entered into between the Detroit Bankers Co. and the People's Wayne County Bank of Detroit. Will you look at it and tell me if that is a true and correct copy of the service contract to which you have referred?

Mr. BALLANTYNE. Yes; that is a copy.

Mr. PECORA. I ask that it be marked in evidence.

Senator COUZENS. The same will be marked in evidence without being spread upon the record.

(Photostatic copy of service contract referred to and identified by the witness was received in evidence, marked "Committee Exhibit No. 8, Jan. 24, 1934.")

Senator COUZENS. The subcommittee will take a recess until 2 o'clock.

(Whereupon, at 12:40 p.m., a recess was taken until 2 o'clock of the same day, Jan. 24, 1934.)

AFTERNOON SESSION

Upon the expiration of the noon recess, the committee resumed the hearing at 2 p.m.

Senator COUZENS (presiding). I desire to announce that Chairman Fletcher has charge of the gold bill on the floor of the Senate and has asked me to preside while he has charge of that bill on the floor of the Senate. The meeting will come to order, please.

TESTIMONY OF JOHN BALLANTYNE, DETROIT, MICH., PRESIDENT OF MANUFACTURERS' NATIONAL BANK OF DETROIT AT THE PRESENT TIME—Resumed

Mr. PECORA. Mr. Ballantyne, were these service contracts, of which committee's exhibit no. 8 is a sample copy, entered into between the Detroit Bankers Co. and each and every one of the banking units of that holding group?

Mr. BALLANTYNE. Mr. Pecora, I wonder if you would mind if I would transfer that question to Mr. Verhelle, who is under oath?

Mr. PECORA. All right.

Mr. BALLANTYNE. I think perhaps he will answer it a little more intelligently than I will.

Mr. PECORA. Are you unable to tell us anything about these service contracts?

Mr. BALLANTYNE. I know in a very general way about them, as I spoke about them to you.

Mr. PECORA. Suppose you tell us first what you know of them, even if it be only in a general way.

Mr. BALLANTYNE. The terms of the contracts, the service contracts, the express terms, are mentioned in the contract.

Mr. PECORA. Yes.

Mr. BALLANTYNE. I think there were changes, some implied terms, something was done that was not expressed; but there was obviously

some—for example, immediately after the write-off that you are coming to perhaps in the situation we established a claims or recovery department, out of which we hoped to realize a lot of money, and that was put into this Detroit Bankers Co. operation, as well as those expressed duties. But that is something I am sure you would approve of yourself. It was done for a very manifest purpose and for the very best of results.

Mr. PECORA. What were those very best purposes and results that were sought to be attained through the medium of the rendition of these services under these contracts of the holding company and various unit banks?

Mr. BALLANTYNE. Oh, largely economies. I think there was purchasing, one of them. Now, you can purchase more——

Mr. PECORA (interposing). Purchasing of what; supplies?

Mr. BALLANTYNE. Supplies, stationery, and so forth.

Mr. PECORA. Office equipment?

Mr. BALLANTYNE. Office equipment and what-not.

Mr. PECORA. What other kind of service was rendered, actually rendered under these contracts?

Mr. BALLANTYNE. Everything, I think, that was expressed there. Could I see the contract again, Mr. Pecora?

Mr. PECORA. Surely [handing document to Mr. Ballantyne].

Mr. BALLANTYNE. The auditing was not attended to by the bankers. We thought that was a very desirable thing, to have the auditing staff outside of the bank.

Senator COUZENS. Did you then dispense with auditors within the units?

Mr. BALLANTYNE. Within the units; yes, sir. Accounting, credits——

Mr. PECORA. Would not accounting come under the general heading——

Mr. BALLANTYNE. The credits were not passed on by the——

Mr. PECORA. Would not accounting come under the general heading of auditing?

Mr. BALLANTYNE. Yes; largely. Advertising was one of them, business promotion, purchasing, printing, rental of buildings; I presume that would have come under it. I don't recall.

Mr. PECORA. Talk a little louder, please.

Mr. BALLANTYNE. Fidelity bonds; that was included. Insurance——
no.

Mr. PECORA. You mean surety bonds?

Mr. BALLANTYNE. Yes. I think that is the extent of it, with the possible addition of that recovery operation.

Senator COUZENS. Then to the extent that the Detroit bankers did those jobs the board of directors did not operate the units, did they?

Mr. PECORA. The board of directors of the various units?

Senator COUZENS. Yes.

Mr. BALLANTYNE. Well, I suppose it is rather a fine point, but I think we were perfectly willing it should be done, and of course in nearly every case any operation was performed. For instance, take this recovery department or claims department. Nothing was done that was not authorized and agreed to by the officer in charge of the thing. There was no contest of the power there at all. Senator. I can assure you of that.

Mr. PECORA. What actual facilities did the Detroit Bankers Co. have among its personnel to render all these services to all these unit banks?

Mr. BALLANTYNE. Well, we had a very excellent staff, experts in their line. That recovery department was chosen with great care. I think we had a man named Bratton, who is perhaps the most able man in Detroit on that kind of work. We had him and others. We had a man named Stead who was an expert on tax problems. We had really expert men in nearly every job.

Mr. PECORA. Do you know the aggregate amount that was paid annually by the various unit banks to the Detroit Bankers Co. under these service contracts?

Mr. BALLANTYNE. Well, I would just guess two or three hundred thousand dollars.

Mr. PECORA. I understand the sum is approximately \$400,000.

Mr. BALLANTYNE. Well [addressing Mr. Verhelle] would you know, Joe?

Mr. VERHELLE. No.

Mr. BALLANTYNE. You probably have it exact. I don't recall. It is pretty hard to remember all these details.

Mr. PECORA. Do you know whether, out of the moneys that the holding company received from the unit banks under these service contracts, the holding company realized a substantial profit, out of these services charges?

Mr. BALLANTYNE. It would be an indirect profit, I would say; yes.

Mr. PECORA. A substantial profit?

Mr. BALLANTYNE. I would say yes.

Mr. PECORA. Do you know what proportion of the total fees paid by the holding company by the unit banks annually under these service charges represented profit to the holding company?

Mr. BALLANTYNE. Well, now, you take the accounting department in the holding company. If they had not had it the banks would have had it. That was divorced from the banking units proper, and it was very wise; that thing was very wise, Mr. Pecora.

Mr. PECORA. I am not calling for that. I am asking you to give us if you can—

Mr. BALLANTYNE (interposing). I cannot give you the detail.

Mr. PECORA (continuing). The proportion of the charges or commissions, fees, received by the holding company under these service contracts with the unit banks which represented profit.

Mr. BALLANTYNE. It was not fees or commissions. It was simply disbursements, salaries, and what not to employees. There were no fees or commissions involved.

Mr. PECORA. As a matter of fact, the holding company charged for these services?

Mr. BALLANTYNE. Just what they cost.

Mr. PECORA. Just what they cost?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Then, you say there was no profit to the holding company?

Mr. BALLANTYNE. None to the holding company; no.

Mr. PECORA. How is that?

Mr. BALLANTYNE. I didn't understand your question. None to the holding company.

Mr. PECORA. Are you sure of that?

Mr. BALLANTYNE. Well, I am very confident. I am very confident there was no profit to the holding company on that. I think demands were made just to immediately cover disbursements. You may have something there that denotes differently, but that is my memory.

Mr. PECORA. Do you know anything about an indebtedness of \$7,200,000 which was incurred by the Detroit Bankers Co. in connection with its acquisition of the First National Co., which was one of the investment affiliates of the Detroit Bankers Co.?

Mr. BALLANTYNE. I certainly do.

Mr. PECORA. You do?

Mr. BALLANTYNE. Oh, yes.

Mr. PECORA. Out of the several hundred thousands of dollars a year which the holding company received under these service contracts from the unit banks did not the holding company pay its interest charges on that \$7,200,000 indebtedness?

Mr. BALLANTYNE. No.

Mr. PECORA. Are you sure of that, Mr. Ballantyne?

Mr. BALLANTYNE. Well, I am very confident. Mr. Verhelle is here. I think he will substantiate that.

Mr. VERHELLE. To the best of my knowledge there never has been.

Mr. BALLANTYNE. To the best of Mr. Verhelle's knowledge it did not.

Mr. PECORA. How did this indebtedness of \$7,200,000 that we spoke of a moment ago originate?

Mr. BALLANTYNE. Mr. Pecora, that was all done prior to the formation of the company, and we only got in at the end of it, at the end of the discussion probably. I have opposed the purchase of these State banks religiously from the beginning of time. I am opposed to them now.

Senator COUZENS. I understood you to say a while ago that you knew all about this indebtedness of \$7,200,000 for the acquisition of the First National Co. Will you tell us about that?

Mr. BALLANTYNE. That is what he is asking me. I think.

Mr. PECORA. Yes.

Mr. BALLANTYNE. Yes.

Senator COUZENS. Will you tell us what you know about it?

Mr. PECORA. Tell us how the indebtedness originated.

Mr. BALLANTYNE. It originated through the First National Bank buying portions of stock in State banks throughout the Michigan peninsula.

Mr. PECORA. The First National Bank prior to the acquisition of its capital stock by the Detroit Bankers Co. had acquired minority holdings in the stock of various State banks, had it not?

Mr. BALLANTYNE. You have them all listed there. Yes.

Mr. PECORA. And it acquired those minority stockholdings in those other banks through its investment affiliate, a company called the First National Co.?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And in the process of the acquisition of those minority holdings—

Mr. BALLANTYNE. Yes.

Mr. PECORA. In these other banks the First National Co. incurred an indebtedness aggregating \$7,200,000, did it not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. The Detroit Bankers Co., which was formed on January 8, 1930, shortly thereafter took over the First National Bank in Detroit and its affiliate, the First National Co., did it not?

Mr. BALLANTYNE. A certificate of stock of the affiliate of that thing and the First National Bank stock were on the same certificate.

Mr. PECORA. Yes.

Mr. BALLANTYNE. Mr. Pecora, you are asking me a very difficult question.

Mr. PECORA. Why is it difficult, Mr. Ballantyne?

Mr. BALLANTYNE. Well, I will tell you why it is difficult. I did not know then and I do not know now. It is a legal matter; it is not a matter that I can pass on as to who owns or is responsible for those stocks. I never was at a meeting that I did not damn those stocks.

Mr. PECORA. What stocks are you talking about now, the minority holdings of these various banks?

Mr. BALLANTYNE. Precisely.

Mr. PECORA. Yes. Why did you damn them at every meeting?

Mr. BALLANTYNE. Because I did not like them, obviously.

Mr. PECORA. They had been acquired by the First National Bank in Detroit prior to the time that that bank came into the holding company?

Mr. BALLANTYNE. Precisely.

Mr. PECORA. Through an exchange of stock?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. If you did not like that feature of the First National Bank in Detroit did you as one of the directors and trustees of the Detroit Bankers Co. protest against and vote against—

Mr. BALLANTYNE. Absolutely.

Mr. PECORA. The acquisition of the First National Bank and its security affiliate by the Detroit Bankers Co.?

Mr. BALLANTYNE. I had no choice in the buying of them. They were bought before I had anything to do with the damn thing, but I didn't ever miss an opportunity of protesting against it, Mr. Pecora.

Senator COUZENS. Are those protests recorded in the minutes?

Mr. BALLANTYNE. I don't know. I don't know whether they are or not, but anybody here—(After conferring with Mr. Verhelle) January 1 I think there is a protest mentioned there.

Mr. PECORA. For what year?

Mr. BALLANTYNE. January 1 of the year of our merger.

Mr. PECORA. 1930?

Mr. BALLANTYNE. I made a motion at that time that the whole matter be tabled until the First National Bank with all its subsidiaries be re-examined. I think that is a matter of record in the minutes.

Mr. PECORA. Mr. Ballantyne, the Bank of Michigan, which was the bank in which you held the office of chairman of the Board of Directors—

Mr. BALLANTYNE. Yes.

Mr. PECORA. Became consolidated with the First National Bank, did it not?

Mr. BALLANTYNE. No, no, no. It became consolidated with the Peoples Wayne Bank.

Mr. PECORA. Oh, the Peoples Wayne Bank?

Mr. BALLANTYNE. Yes.

Mr. PECORA. When the proposal came up before the directors of the Detroit Bankers Company upon and after the incorporation of that company in January 1930 to acquire the capital stock of the First National Bank in Detroit and its affiliate, the First National Company, you knew at that time that the First National Company was burdened with this \$7,200,000 indebtedness, didn't you?

Mr. BALLANTYNE. Mr. Pecora, I didn't know at that time—I don't think I did—the minutes say I did, but I received a shock on the first day of January—

Mr. PECORA. Of 1930?

Mr. BALLANTYNE. 1930, and that is when I made that motion, that the whole matter be tabled until such time as the First National Bank and all its affiliates be examined.

I am not going to be accountable for those banks. I did nothing but damn them from beginning to end—doing it now.

Mr. PECORA. I am trying to find out from you. Mr. Ballantyne, why you voted for the acquisition.

Mr. BALLANTYNE. I didn't vote.

Mr. PECORA. Did you vote against it?

Mr. BALLANTYNE. Well, I made a motion that we should not—

Mr. PECORA (interposing). Well, let's see. We haven't found it yet.

Mr. BALLANTYNE. You can find it on January 1. It was a New Year's Day meeting.

Mr. PECORA. A meeting of what?

Mr. BALLANTYNE. An S.O.S. meeting called by Mr. Haass.

Mr. PECORA. Of what board?

Mr. BALLANTYNE. Of the Bankers board.

Mr. PECORA. The Detroit Bankers?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Well, it was not in legal existence at that time?

Mr. BALLANTYNE. No; it was prior to it, prior to it.

Mr. PECORA. The corporation did not assume legal form until January 8, 1930?

Mr. BALLANTYNE. I think I see what is in your mind. I think I understand.

Mr. PECORA. There were no directors until the corporation was formed, and it was not formed until January 8, 1930. What meeting are you talking about that was an S.O.S. meeting held on New Year's Day, 1930?

Mr. BALLANTYNE. I am talking of a meeting that was called on January 1, 1930. You will find it there. Have you got it there?

Senator COUZENS. This meeting was called by the prospective directors of the Bankers Co., was it not?

Mr. BALLANTYNE. Yes; prospective directors. It was called. I am sure, by Julius Haass at his house, Senator, a hurry call to go out there and talk this over.

Mr. PECORA. The minute book of the board of directors of the Detroit Bankers Co. commenced with a meeting held on January 9, 1930.

Mr. BALLANTYNE. Well, that is possibly so. But there is one of January 1. There were some minutes taken of that meeting, and it will show that a motion was made to the effect that I am stating to you. I made the motion. Now I left the meeting. Have you got it?

Mr. PECORA. Now I have before me what purports to be a photostatic copy of minutes of a meeting of the Detroit Bankers Co. held at Mr. Haass' home on New Year's Day, January 1, 1930.

Mr. BALLANTYNE. That is it.

Mr. PECORA. Is that the meeting you referred to?

Mr. BALLANTYNE. Yes, sir; that is the one. Does it speak about a motion there?

Mr. PECORA. I will read the full minutes. [Reading:]

JANUARY 1, 1930.

MINUTES OF THE MEETING OF THE DETROIT BANKERS CO. HELD AT MR. HAASS' HOME, 75 CLOVERLY, GROSSE POINTE FARMS. ON NEW YEAR'S DAY AT 3 P.M.

Present: John Ballantyne, William T. Barbour, John R. Bodde, McPherson Browning, Herbert L. Chittenden, Emory W. Clark, D. Dwight Douglas, Julius H. Haass, T. W. P. Livingstone, Wesson Seyburn, Ralph Stone, Mark Wilson.

Mr. Julius H. Haass presided. E. R. Lewright acted as secretary.

DECREASE IN NET WORTH OF INVESTMENT COMPANIES

Mr. Haass explained that financial statements of the four banks and the trust company would reflect in each case the net worth after December 31, 1929, at least equal to that shown in the respective statements upon which computations were based in September for the allotment of capital stock in the Detroit Bankers Co., the only exceptions thereto being accounted for by a write-off of certain assets, such as furniture, fixtures, and improvements to leasehold properties, which were agreed upon at the time. In the case of the two securities companies, however, he pointed out that the severe decline in market prices had so materially altered the position of the First National Co., and to a lesser degree the Detroit company, that it was his opinion some provision should be made to restore the values of these companies prior to their acquisition by the Detroit Bankers Co. Inasmuch as the shrinkage in the First National Co. was much greater than in the Detroit company, and since a good portion of that shrinkage was brought about by the purchase of several stocks subsequent to the Detroit Bankers Co. agreement, the attention of the committee was directed primarily to the affairs of that company. The committee concluded that the interests of the Detroit Bankers Co. should be properly safeguarded, and Mr. Clark and Mr. Douglas both expressed the belief the board of directors of the First National Bank would take necessary action to protect the company for any equitable amount and would so recommend to their board.

Mr. Wilson was asked to make such examination of the company as will enable the committee to determine the amount which it expects will be guaranteed or reserved for in some satisfactory manner. He was also requested to inquire into the affairs of the Detroit company, although Mr. Browning stated that company and the bond department of the Detroit & Security Trust Co. would require to be considered together and in his opinion the decrease in security values was to a considerable extent offset by earnings during the period from September 1 to December 31, 1929.

INCORPORATION DATE DEFERRED

Pending adjustments with respect to the decrease in the net worth of the securities companies, the filing of the articles of association of the Detroit Bankers Co., scheduled for January 2, 1930, and the subsequent meeting of the incorporators of January 4, 1930, is now postponed. Each bank and the trust

company will therefore forward notices of the annual meeting and proxies to all stockholders of record, whether the stock has or has not been deposited with the trustee.

Those are the full minutes of that meeting.

Mr. BALLANTYNE. It does not mention a motion?

Mr. PECORA. Signed by Mr. E. R. Lewright as secretary.

Mr. BALLANTYNE. Well, there are men in this room who can testify that I made such a motion at that meeting.

Mr. PECORA. There was another meeting held on the following day, January 2, 1930, at 3 p.m., as appears from what purports to be a photostatic reproduction of the minutes of that meeting, which I have before me, and which I will read to you. [Reading:]

MINUTES OF THE MEETING HELD AT 3 P.M. OF THE DETROIT BANKERS CO.

Present: Messrs. Ballantyne, Bodde, Browning, Chittenden, Clark, Douglas, Haass, Livingstone, Seyburn, Stone, and Mark A. Wilson. Mr. Julius H. Haass presided. E. R. Lewright acted as secretary.

DECREASE IN NET WORTH OF FIRST NATIONAL CO.

At the suggestion of Mr. Clark the chairman called a meeting of the committee for the purpose of further considering the proposition of creating a satisfactory guaranty or reserve to protect the Detroit Bankers Co. in connection with the decrease in value of assets of the First National Co. subsequent to September 1, 1929.

Mr. Clark explained he had carefully studied the auditors' report with Mr. Douglas since yesterday's meeting and had gained a clearer understanding of the situation. He stated that, while mention had been made of a shrinkage in asset values of the securities company of \$1,400,000 during the 4 months prior to December 31, 1929, the net worth of the company, based on cost or market values of securities, whichever they were, on August 31, 1929, and at December 31, 1929, had decreased about \$500,000, and that the balance of the \$1,400,000 was represented by an appreciation over carrying values of the former date. No appreciation of assets, Mr. Clark pointed out, was recognized by the company until actually realized from sale, and thought, therefore, that this appreciation should be eliminated in the computation of any reserves. He expressed the belief the board of directors of the First National Bank, of which the First National Co. is a wholly-owned subsidiary, would furnish ample protection to the Detroit Bankers Co., and that both Mr. Douglas and himself would urge such action as soon as this company can arrive at a figure.

Mr. Wilson stated the accountants were already at work on the books of the 2 securities companies, and within a few days the committee would be supplied with sufficient data to determine on the amount of the proposed reserve.

The meeting adjourned.

E. R. LEWRIGHT, *Secretary*.

Mr. BALLANTYNE. That is about all I know about it.

Senator COUZENS. There is no reference there to any of your protests, is there?

Mr. BALLANTYNE. Apparently not, but you have people in the room here who can testify to my motion. Mr. Douglas and Mr. Browning can.

Mr. PECORA. Will you tell us what the basis of your protest was whenever you did enter it?

Mr. BALLANTYNE. I will have to think of that. Of course, I had continuously condemned the proceedings. I think the banks were bought foolishly, hastily, without wise consideration. I have got to say that. And I never wanted them at all. So I was rather inclined to be severe about anything pertaining to it, Mr. Pecora.

Mr. PECORA. You knew of this indebtedness of \$7,200,000 that had already been incurred by the First National Co.—

Mr. BALLANTYNE. By the 1st of December.

Mr. PECORA. In connection with the acquisition of these minority interests in the stock of these various other banks?

Mr. BALLANTYNE. Yes. Remember that I am told that there is a minute in November which indicates 7 millions. I cannot recall—and I am supposed to be at that meeting—I cannot recall anything about that. It came as a shock to me on new year's day of that year to know that there was so much money involved in that transaction.

Mr. PECORA. Well now, whether you protested or not, this indebtedness of \$7,200,000 was assumed by the Detroit Bankers Co., was it not?

Mr. BALLANTYNE. I wonder if it was.

Mr. PECORA. I am asking you if it was. You were a director of that Detroit Bankers Co. right from the start. You were 1 of the 12 trustees who had the exclusive voting power for directors of the holding company.

Mr. BALLANTYNE. Yes.

Mr. PECORA. You were one of the founders, and you remained as a director and trustee until you resigned in May 1932.

Mr. BALLANTYNE. Yes.

Mr. PECORA. So why can't you tell me? Why do you ask me?

Mr. BALLANTYNE. I said to you that I thought it was a legal matter. I have heard conflicting opinions about that. I don't know. Mr. Pecora, maybe you can get information you want about that from someone else.

Mr. PECORA. Whom would you suggest is better equipped than you are to inform this committee concerning the facts and details of that \$7,200,000 indebtedness?

Mr. BALLANTYNE. And the legal status of it? I don't know.

Mr. PECORA. I am not confining my inquiry to the legal status of it but to all the facts concerning it.

Mr. BALLANTYNE. Of course, Dwight Douglas had handled all the purchases; Dwight Douglas. I don't know under whose direction. It was all done before we got—the First National Bank got—into our picture.

Mr. PECORA. Do you mean to say that you cannot tell the committee whether or not the Detroit Bankers Co. assumed this indebtedness or liability of \$7,200,000 when it took over the First National Bank and its affiliate, the First National Co.?

Mr. BALLANTYNE. I don't think it took over that. I cannot tell you.

Mr. PECORA. It took it over in the sense that the Detroit Bankers Co. acquired all of the outstanding capital stock of the First National Bank, which carried with it all of the outstanding capital stock of the First National Co.

Mr. BALLANTYNE. Mr. Pecora, I am sure you will get as much information from Judge Connally as anyone. He is receiver for the Detroit Bankers Co. now, and he is studying that question, undoubtedly. I am not a lawyer.

Mr. PECORA. Unfortunately, Judge Connally had nothing to do, as I understand it, with the organization of the Detroit Bankers Co.

or with the conduct of its affairs up to the time at least when it went into receivership, and that was not until March 1933. I want to find out something about the activities of the Detroit Bankers Co. for a period of time long before Judge Connally became in any way identified with it. So I cannot ask Judge Connally about that.

Mr. BALLANTYNE. Maybe you can ask Mr. Clark.

Senator COUZENS. During 1930 and 1931 and 1932, three years and more before Judge Connally became receiver, did you have any idea that you had assumed those liabilities of the First National Co.?

Mr. BALLANTYNE. Senator, very shortly before I left that bank I asked for a legal opinion on it from another source.

Senator COUZENS. Did what?

Mr. BALLANTYNE. I asked for another legal opinion on it. I think it is a question for the lawyers to determine, what the liability is of the First National Bank.

Senator COUZENS. Did you think they had morally assumed those liabilities, outside of the legal question?

Mr. BALLANTYNE. No; I never did.

Senator COUZENS. You never did?

Mr. BALLANTYNE. No.

Mr. PECORA. Do you know from what sources the First National Co., when it acquired these minority holdings of the capital stock of these various other State banks, got the money with which to purchase those minority holdings of capital stock?

Mr. BALLANTYNE. Well, that was done before my day, of course.

Mr. PECORA. I know it.

Mr. BALLANTYNE. I understand—I think they borrowed some from the First National Bank. The loans were shifted. I understand that the Guaranty Trust of New York and the Chase National of New York and the Continental of Chicago—it is a kind of a hazy memory to me, Mr. Pecora.

Mr. PECORA. Are you familiar with the transactions whereby the First National Co. obtained the moneys with which to enable it to acquire these minority holdings of the capital stock of these upstate banks?

Mr. BALLANTYNE. Oh, no. That was all quite a long time before I went into the bank.

Mr. PECORA. Are you familiar with the various loan transactions that the Detroit Bankers Co., after it acquired the capital stock of the First National Bank in Detroit and its affiliate, the First National Co., obtained the money with which to meet those obligations represented in this indebtedness of \$7,200,000?

Mr. BALLANTYNE. I believe the Bankers Co. assumed these loans.

Mr. PECORA. Talk a little louder, please.

Mr. BALLANTYNE. I believe shortly after the consolidation, merger, the Bankers Co. assumed a number of those loans, because of their ability to borrow cheaply. Mr. Verhelle here would know more about the details of that than I would.

Mr. PECORA. Do you know about the details of those transactions?

Mr. VERHELLE. Yes.

Mr. PECORA. I will question you about that shortly, then.

Now, Mr. Ballantyne, I want to read to you the following resolution that was adopted by the board of directors of the Detroit Bank-

ers Co. at a meeting of that board held on February 17, 1930, which was about a month and a half after the Detroit Bankers Co. took legal form. I have before me what purports to be a photostatic reproduction of the minutes of that meeting, and it appears that there were present at that meeting the following-named directors:

John Ballantyne, Mr. Barbour, Mr. Bodde, Mr. Browning, Mr. Chittenden, Mr. Douglas, Mr. Livingstone, Mr. Seyburn, and Mr. Mark A. Wilson. Mr. McPherson Browning, vice president, presided, and E. R. Lewright, secretary, acted as secretary of the meeting.

On duly supported motion the minutes of the last meeting were approved.

Financing investment in Michigan bank stocks.

Consideration was again given to a method of financing the investment in certain shares of various banks located throughout Michigan held by the First National Co., and on the duly supported motion of Mr. Ballantyne the following resolution was adopted:

"Resolved that the authority given to officers of the corporation to purchase from the First National Co. the investment of that company in certain stocks of various banks located throughout Michigan for the sum of \$6,903,929.13, and the authority to finance such purchase by execution of an obligation on behalf of the corporation not to exceed \$7,000,000 given by resolution of this board adopted at a regular meeting held on the 13th day of February, be and the same is hereby revoked, and the resolution aforementioned is hereby canceled and annulled.

"Resolved further that the agreement relating to reimbursement by the First National Co. to the Detroit Bankers Co. for an amount equivalent to the deficiency between interest charges and dividends is now unnecessary, and that the resolution requiring such an agreement adopted by this board at the same meeting is hereby revoked and annulled."

Mr. Ballantyne then offered and moved the adoption of the following resolution:

"Resolved, That the officers of the Detroit Bankers Co. be, and are hereby, empowered and directed to borrow a sum not to exceed \$7,000,000 and to execute a note or notes therefor to be signed on behalf of the corporation by the officers who are duly authorized to execute such obligation."

The motion being duly seconded, the resolution was adopted.

For the purpose of providing additional working capital to the First National Co., it was resolved:

"That this company lend to the First National Co. a sum not to exceed \$7,000,000, accepting therefor a duly signed note of the First National Co. bearing interest at a rate identical with that paid by the Detroit Bankers Co. on its borrowings, and that the obligation be collateraled by the pledge of shares of stock in 10 banks located throughout Michigan carried on the books of account of the First National Co. at an aggregate value of \$7,245,906.80."

Do you recall those resolutions that you offered?

Mr. BALANTYNE. In substance I do; yes, sir. I moved that the former motion be rescinded.

Mr. PECORA. Yes?

Mr. BALLANTYNE. The motion to assume the liabilities of that organization. I was choosing the lesser of two evils. We had to get the money. Our First National Co. was involved. The motion to borrow the money for them, as I recall it, was based on the difference in rate that we would have to pay. In fact, I questioned whether the First National could have got it.

Mr. PECORA. It would seem that on February 17, 1930, before the Detroit Bankers Co. was a month a half old, you were so familiar with the situation with regard to this indebtedness of the First National Co., which it had incurred as a result of the acquisition of minority holdings in these 10 State banks referred to in these resolutions of yours, that at this meeting of the board on February 17,

1930, you offered the resolutions which committed the Detroit Bankers Co. to borrow, first, \$7,000,000.

Mr. BALLANTYNE. Yes.

Mr. PECORA. And then loan the proceeds of those borrowing to the First National Co.

Mr. BALLANTYNE. Yes.

Mr. PECORA. On its, the latter's, note.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Do you know from what sources the Detroit Bankers Co., in pursuance of this resolution, borrowed the moneys in question?

Mr. BALLANTYNE. No; I do not remember. You probably have it there.

Mr. PECORA. Now, from the minutes of a special directors meeting of the board of the Detroit Bankers Co. held on May 16, 1930, it appears that the treasurer of the company made a report as follows [reading] :

The treasurer reported that the company had two obligations with the Guaranty Trust Co. of New York as follows: May 20, 1930, \$4,000,000; June 2, 1930, \$3,000,000; together, \$7,000,000. The chairman appointed Messrs. Douglas and Seyburn to negotiate for renewals of these loans either at the same institutions or elsewhere.

Does not that refresh your recollection that the \$7,000,000 was borrowed from the Guaranty Trust Co. of New York by the Detroit Bankers Co.?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And that money was borrowed in order to enable the First National Co. to take care of its obligations, the obligations it had incurred, amounting to around 7 million dollars, in connection with its acquisition of the minority holdings of these 10 State banks?

Mr. BALLANTYNE. Yes.

Mr. PECORA. What actually happened was that the Detroit Bankers Co. went out and borrowed the money, which it loaned to the First National Co.

Mr. BALLANTYNE. Precisely.

Mr. PECORA. And took back the note of the First National Co.?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And with that loan which the First National Co. obtained from the Detroit Bankers Co. it paid off its indebtedness, the indebtedness which it had incurred previously in connection with its acquisition of the minority holdings of the stock of those 10 State banks?

Mr. BALLANTYNE. Yes.

Mr. PECORA. So that in substance, if not in form, the indebtedness was transferred from the First National Co. to the Detroit Bankers Co., was it not?

Mr. BALLANTYNE. I believe so.

Mr. PECORA. Why was it necessary to do that at that time. Mr. Ballantyne?

Mr. BALLANTYNE. To borrow the money for them?

Mr. PECORA. Yes.

Mr. BALLANTYNE. I think the record of the status of the company will show that. I do not have it in my mind. These purchases were away above their heads. They could not handle them at all.

Mr. PECORA. Was this transaction had in order to enable the First National Co., or rather in order to prevent the First National Co. from going into bankruptcy on account of those obligations?

Mr. BALLANTYNE. Oh, yes.

Mr. PECORA. The Detroit Bankers Co. at that time had no invested capital of its own, did it?

Mr. BALLANTYNE. No.

Mr. PECORA. In order to raise any money it had to go out and borrow it?

Mr. BALLANTYNE. Yes.

Mr. PECORA. So that within the first 4 or 5 months of its corporate existence the Detroit Bankers Co. virtually assumed an indebtedness of \$7,000,000 for one of its wholly owned subsidiaries?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And in order to relieve that wholly owned subsidiary of that indebtedness and of being forced into bankruptcy?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Do you know whether or not, since that time, the First National Co., as the owner of the stock which it had acquired in those 10 State banks, has been required to pay a statutory assessment because some of those banks failed?

Mr. BALLANTYNE. No; I think maybe there is, but I have no knowledge of it.

Mr. PECORA. Are you familiar with that, Mr. Verhelle?

Mr. VERHELLE. The answer is "yes."

Mr. PECORA. Which of those banks failed?

Mr. VERHELLE. The Monroe State Bank; the bank up at Lansing—

Mr. PECORA. Suppose you look at the chart and get the names from that chart.

Mr. VERHELLE. The American State, of Lansing; the Pontiac Bank—

Senator COUZENS. Give the names of the banks, please.

Mr. VERHELLE. The First National Bank & Trust Co. of Pontiac; the American State, of Lansing, and the Monroe State Savings.

Mr. PECORA. When did those banks close, or fail?

Mr. VERHELLE. The Pontiac was in May, I would say, of 1932. The Monroe State Savings was about May of 1932. The American State of Lansing—I am a little hazy on it. It was approximately at the same time.

Mr. PECORA. How about the others?

Mr. VERHELLE. You asked a question as to which were called upon to pay an assessment.

Mr. PECORA. No. The question I asked you immediately preceding was when these various banks you have mentioned failed or closed.

Mr. VERHELLE. Those are the three, and that is all I have mentioned.

Mr. PECORA. All three at about the same time?

Mr. VERHELLE. Roughly speaking.

Mr. PECORA. During the first half of 1932, approximately?

Mr. VERHELLE. Approximately.

Mr. BALLANTYNE. The Pontiac was later than May 1932.

Mr. PECORA. Now, I will ask you, Mr. Ballantyne, if you know how the Detroit Bankers Co. handled these obligations aggregating \$7,000,000, which it assumed in May and June 1930, in order to raise the money to lend to the First National Co.? If you do not know, just say so and I will question Mr. Verhelle about it.

Mr. BALLANTYNE. It is quite an involved question you are asking and I think perhaps Mr. Verhelle had better answer it.

Mr. PECORA. All right. Are you able to tell the committee how those loans were serviced by the Detroit Bankers Co.?

Mr. VERHELLE. In part by interest received from Messrs. Clark and Douglas. In part by dividends received from those State bank stocks themselves; further in part by income received from other assets of the First National Co.; further in part—and I should say the balance—from other cash derived from the First National Co.

Mr. PECORA. Mr. Verhelle, the Detroit Bankers Co. from time to time renewed the original loans it had obtained from the Guaranty Trust Co. in May and June 1930 for the \$7,000,000, did it not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Do you know the course of those renewals and whatever payments were made on account from time to time?

Mr. VERHELLE. Not from memory.

Mr. PECORA. Have you any records before you that will enable you to tell us?

Mr. VERHELLE. The transaction starts in February of 1930, at which time the obligation was taken over by the Detroit Bankers Co., and—I wonder if you have not a copy of the journal sheet there of the Bankers Co. books, or their ledger. That shows it in detail.

Mr. PECORA. We do not have them.

Mr. VERHELLE. In substance it amounted to a series of renewals of this note with payments one after another, until, if my recollection serves me correctly, the note was paid down to approximately 2½ million dollars. It was paid through various amounts realized from dividends, and so forth, which moneys were applied; also from the sale of securities of the First National Co. They had one substantial amount of money there in the form of some stock for which, my recollection is, they received approximately \$1,800,000.

Senator COUZENS. What stock was that?

Mr. VERHELLE. The First Detroit Co. As a result of that series of operations there must be at least 30 to 50 transactions involved, renewals of notes, with partial payments applying on them. The balance that was left, I think, was approximately \$2,500,000 at the time the bank was closed in February.

Mr. PECORA. As a matter of fact, the Detroit Bankers Co. never got rid entirely of that indebtedness, did it?

Mr. VERHELLE. No, sir.

Mr. PECORA. You were comptroller at one time of the Detroit Bankers Co., were you not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. When did that happen?

Mr. VERHELLE. February 27, 1930.

Mr. PECORA. For how long thereafter did you continue to serve as comptroller of the Detroit Bankers Co.?

Mr. VERHELLE. Until the beginning of November of 1932.

Mr. PECORA. That was up to about 3 or 4 months of the time when the company went into receivership?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. See if you can recall, from the data which I will embody in my questions to you, the course of these obligations of 7 million dollars which the Detroit Bankers Co. assumed within a month and a half of its corporate birth. It has already been developed that the 7 million dollars in question was borrowed by the Detroit Bankers Co. from the Guaranty Trust Co. originally in the following amounts: 4 million dollars on May 20, 1930; 3 million dollars on June 2, 1930. You are familiar with that, are you not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, it appears that on May 20, 1930, the Detroit Bankers Co. borrowed \$3,000,000 from the Detroit Trust Co., which it paid over to the Guaranty Trust Co. of New York. Do you recall that?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And thereafter, on August 18, 1930, the Detroit Bankers Co. borrowed another \$1,000,000 from the Detroit Trust Co., which it paid over to the Guaranty Trust Co. Is that right?

Mr. VERHELLE. What was the status of the other note at that time, sir? I am questioning the word "another" in there. You may be right.

Mr. PECORA. You mean the status when the \$1,000,000 was borrowed on August 18?

Mr. VERHELLE. Yes.

Mr. PECORA. Prior to that borrowing of \$1,000,000 the Detroit Bankers Co. apparently owed the Guaranty Trust Co. \$4,000,000, and owed the Detroit Trust Co. \$3,000,000, which it had borrowed on May 20, 1930.

Mr. VERHELLE. That is right.

Mr. PECORA. Do you recall that on August 18, 1930, the Detroit Bankers Co. borrowed \$1,000,000 from the Detroit Trust Co., which it paid to the Guaranty Trust Co.?

Mr. VERHELLE. I would neither be sure of that date nor be certain as to the actual status of the \$3,000,000 which was then purported to be on its books.

Mr. PECORA. The what?

Mr. VERHELLE. I would not be certain as to that date, of course. I would not know for certain.

Mr. PECORA. You recall the borrowing of \$1,000,000?

Mr. VERHELLE. I recall the borrowing back and forth there of approximately \$1,000,000 around that time, to relieve the Guaranty Trust Co. note.

Mr. PECORA. That, then, left the Detroit Bankers Co. owing the Detroit Trust Co. \$4,000,000, and the Guaranty Trust Co. of New York \$3,000,000?

Mr. VERHELLE. I would assume so.

Mr. PECORA. Now, thereafter, on December 30, 1930, do you recall that the Detroit Bankers Co. borrowed another \$1,000,000, this time from the Chase National Bank, which it paid to the Detroit Trust Co., and also at the same time borrowed the further sum of

\$3,000,000 from the Chase National Bank, which it paid to the Guaranty Trust Co.?

Mr. VERHELLE. I assume that to be correct.

Mr. PECORA. That left the Detroit Bankers Co. owing nothing to the Guaranty Trust Co. and owing \$4,000,000 to the Chase National Bank and \$3,000,000 to the Detroit Trust Co.?

Mr. VERHELLE. In the way you had put it there, sir, that would have left \$3,000,000 with the Chase and \$4,000,000 with the Detroit Trust Co., the way you reported your figures.

Mr. PECORA. On December 30, 1930, the Detroit Bankers Co. borrowed \$1,000,000 from the Chase, which it paid to the Detroit Trust Co., reducing its indebtedness to the Detroit Trust Co. from \$4,000,000 to \$3,000,000; and on that same day, December 30, 1930, borrowed the further sum of \$3,000,000 from the Chase National Bank, with which it extinguished its obligation to the Guaranty Trust Co. in that amount. That would leave the Detroit Bankers Co. owing the Chase National Bank at the end of 1930 the sum of \$4,000,000 and the Detroit Trust Co. the sum of \$3,000,000.

Mr. VERHELLE. That is correct.

Senator COUZENS. Why was that done, Mr. Verhelle?

Mr. VERHELLE. As a general rule a committee was appointed to negotiate for these loans. Where they located these loans was dependent, first, on cost. If they could get their money cheaper in one place than another, quite naturally they placed the loan there. On the other hand, it may have been to the interest of some of the units if they had excess funds and felt that they could move this note easily, to take the benefit of the interest to be received from that note, so that the earnings would accrue to the units of the group rather than to some strange institution.

Senator COUZENS. What collateral did you put up for these loans?

Mr. VERHELLE. The original collateral consisted of the note of the—I am just a trifle off on this. This is my recollection of it. The original collateral on the note when it started out consisted of the note of the First National Co. secured by the actual stocks of these State banks themselves. The note of the Detroit Bankers Co., my recollection is, was unsecured. That is, these banks loaned their money on an unsecured basis.

Senator COUZENS. Is that true of the loan which you got from the Detroit Trust Co.?

Mr. VERHELLE. No. I believe it was not. I think that was the exception to that rule.

Senator COUZENS. You mean that they did have collateral, or that they did not?

Mr. VERHELLE. I think the collateral went on one note or the other there. I would have to check back the records on that to be certain.

Senator COUZENS. All of this time the Detroit Trust Co. was owned by the Detroit Bankers Co.?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Perhaps this will serve to refresh your recollection about the item that Senator Couzens has just asked you about. I am referring to the minutes of the meeting of the board of directors of the Detroit Bankers Co. held on November 11, 1930, at which a report was made by the treasurer, which is entered in the minutes

of that meeting as follows: I am reading from the photostatic copy of the minutes [reading]:

Note payable. The Treasurer reported that note, given to the Detroit Trust Company in the amount of 4 million dollars, secured by an obligation of the First National Company for a like amount, against which is pledged certain state bank stocks, would mature on November 17, 1930. Upon duly supported motion, the proper officers of the company were authorized to execute a full renewal bearing a maturity date of December 30th, 1930.

Mr. VERHELLE. That confirms what I had in mind, sir, and what I stated here before, that the Detroit Trust Co. note had the security behind it.

Mr. PECORA. The security behind it consisted of what is described in this treasurer's report to the board on November 11, 1930, as certain State bank stocks. Were those stocks the same minority holdings of those 10 State banks that were responsible for the creation originally of this \$7,000,000 indebtedness?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Were those stocks worth the amount of the loan?

Mr. VERHELLE. That was purely a matter of opinion, sir.

Mr. PECORA. What was your opinion at the time?

Mr. VERHELLE. That they were not.

Mr. PECORA. How much undercollateralized was that loan?

Mr. VERHELLE. At that particular time I would be unable to say.

Mr. PECORA. Were the loans aggregating \$4,000,000, which had been obtained from the Chase National Bank in December 1930, on December 30, 1930, fully collateralized?

Mr. VERHELLE. I would say definitely no.

Mr. PECORA. To what extent were they undercollateralized?

Mr. VERHELLE. I presume \$4,000,000, sir. I do not believe that was a collateral note.

Mr. PECORA. There was no security at all, is that right?

Mr. VERHELLE. There was no actual collateral.

Mr. PECORA. Now, up to the present point we have seen that this indebtedness of \$7,000,000 which the Detroit Bankers Co. acquired at practically the very outset of its existence, remained with it to the end of its first corporate year. Is that not true?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. What happened in 1931 to take care of that obligation, do you know?

Mr. VERHELLE. I am confused on the dates. If I had the minutes I would be able to tell you definitely.

Mr. PECORA. Do you recall that on August 5, 1931, the Detroit Bankers Co. borrowed \$1,000,000 from the First National Bank of Detroit, which it turned over to the Detroit Trust Co., thereby reducing its indebtedness to the Detroit Trust Co. from \$3,000,000 to \$2,000,000?

Mr. VERHELLE. I would assume that that is correct.

Mr. PECORA. And at that time, in August 1931, the Detroit Bankers Co. still owed \$4,000,000 to the Chase National Bank of New York?

Senator COUZENS. What is your answer? We do not hear.

Mr. VERHELLE. My answer would be that on that specific date I would not know whether they still owed the \$4,000,000 at that particular time. I would not be certain of the dates.

Mr. PECORA. Well——

Mr. VERHELLE. I am perfectly willing to assume that they did, if you have the records there.

Mr. PECORA. So that in August of 1931 this \$7,000,000 indebtedness rested as follows: The Detroit Bankers Co. still owed \$4,000,000 of it to the Chase National Bank, \$2,000,000 of it to the Detroit Trust Co., and \$1,000,000 of it to the First National Bank in Detroit; is that right?

Mr. VERHELLE. Yes.

Mr. PECORA. Now, Mr. Verhelle, are you familiar with the fact that on or about December 1, 1931, the Detroit Trust Co. declared a special dividend consisting of 30,000 shares of stock of the First Detroit Co., which was the investment affiliate of the Detroit Trust Co.?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And those 30,000 shares of the stock of the First Detroit Co. constituted all of the outstanding capital stock of that First Detroit Co., did they not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And the Detroit Trust Co. in turn had all of its capital stock owned at that time by the Detroit Bankers Co.?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. So that by declaring this special dividend, consisting of those 30,000 shares of the capital stock of its investment affiliate, the First Detroit Co., the Detroit Bankers Co., was enabled to acquire that stock.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Do you know why that was done, Mr. Verhelle?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And why was it done?

Mr. VERHELLE. The first and primary reason was to pay an obligation of some \$7,000,000, or to provide payment at least in part.

Mr. PECORA. Is that this obligation of \$7,000,000 that has been the subject of considerable testimony heretofore?

Mr. VERHELLE. Yes, sir. A second reason was, for the purpose of eliminating the security business from that of the group.

Senator COUZENS. Is that all?

Mr. VERHELLE. I think that is all.

Senator COUZENS. What did you do with the 30,000 shares of the First Detroit Co. stock after you got it?

Mr. BALLANTYNE. Are you addressing me, Senator?

Senator COUZENS. No; I was propounding that question to Mr. Verhelle.

Mr. VERHELLE. Well, physically we locked them up in our vault, and we set them up on our books.

Senator COUZENS. How did you get the cash out of those shares to pay off a part of this \$7,000,000 indebtedness?

Mr. VERHELLE. The First Detroit Co. declared a liquidating dividend of \$2,000,000.

Senator COUZENS. In cash?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, Mr. Verhelle, what did you say was the second reason for the declaration of this special dividend?

Mr. VERHELLE. Elimination of the security business from the group, I mean from the activities of the group.

Mr. PECORA. Now, what was the value of those 30,000 shares of stock at the time they were turned over to the Detroit Bankers Co. in the form of this special dividend?

Mr. VERHELLE. Approximately \$3,890,000.

Mr. PECORA. It was then carried on the books of the First Detroit Co., or of the Detroit Trust Co., at \$4,000,000, wasn't it?

Mr. VERHELLE. At the time of the declaration of the dividend it was, sir.

Mr. PECORA. What was done by the Detroit Bankers Co. with those 30,000 shares of capital stock of the First Detroit Co. which it so acquired? In other words, what disposition was eventually made of those 30,000 shares of stock by the Detroit Bankers Co.?

Mr. VERHELLE. Do you mean eventually?

Mr. PECORA. Yes.

Mr. VERHELLE. I can only carry it up to November of 1932.

Mr. PECORA. Well, what disposition was made of them up to that time?

Mr. VERHELLE. A liquidating dividend of \$2,000,000 was declared at the beginning of the year 1932, which makes the moneys, together with others, that were applied on this First National Bank loan that has been the subject of discussion here. Subsequently a further liquidating dividend of some \$200,000 was declared.

Senator COUZENS. By the Detroit Trust Co.?

Mr. VERHELLE. By the First Detroit Co. That was in July or in June of 1932.

Mr. PECORA. Well, now, let us see about that. Do you recall that on December 28, 1931, the Detroit Bankers Co. surrendered 20,000 of those 30,000 shares of the capital stock of the First Detroit Co. for cancelation and received thereupon \$2,000,000 for them?

Mr. VERHELLE. Well, that doesn't sound right to me, sir.

Mr. PECORA. What is the trouble with it?

Mr. VERHELLE. May I have the question read?

Mr. PECORA. The committee reporter will read it to you.

(Which was done.)

Mr. VERHELLE. I think that one of your figures, as to the number of shares, is out of order.

Mr. PECORA. What figure is that?

Mr. VERHELLE. The 20,000, I think.

Mr. PECORA. Do you mean the number of shares it surrendered for cancelation?

Mr. VERHELLE. I think so.

Mr. PECORA. What is your recollection of that number?

Mr. VERHELLE. Well, I think you have them reversed. It seems to me the capital was 3 million dollars, at that time, and that the surplus was around 1 million dollars, but I am not quite certain and maybe you are right. I do not just recall that. Suffice to say that they had received cash of 2 million dollars.

Mr. PECORA. They did receive cash of 2 million dollars?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Do you recall that that sum of 2 million dollars was thereupon, the following day paid to the Chase National Bank in reduction of its 4-million-dollar loan?

Mr. VERHELLE. I would have to straighten myself out on the record in connection with that, because I am not sure that that was the money which was applied on the Chase Bank note. I am not sure about that just now.

Mr. PECORA. Can you refer to any records that may be available to you for the purpose of ascertaining yourself whether or not that is the fact?

Mr. VERHELLE. I do not know that I can. [Witness bows his head in his hands for about a minute.] Well, I have no record that would show that, and I just cannot recall about it.

Mr. PECORA. I think you can accept the figures and the dates as correct, at least subject to any check-up you may want to make on it.

Mr. VERHELLE. All right.

Mr. PECORA. Now, Mr. Verhelle, isn't it the fact that when, on December 1, 1931, the Detroit Trust Co., as the sole owner of all the 30,000 shares of outstanding capital stock of the First Detroit Co., declared this special dividend consisting of those 30,000 shares of stock, which you say were worth around 4 million dollars—

Mr. VERHELLE (interposing). I said \$3,890,000.

Mr. PECORA. Well, I said around 4 million dollars, and that is close enough, isn't it?

Mr. VERHELLE. All right.

Mr. PECORA. That the depositors of the Detroit Trust Co. had their security for their deposits impaired to that extent?

Mr. VERHELLE. No, sir.

Mr. PECORA. Why not?

Mr. VERHELLE. Because I had ample security for those deposits at that time, I mean to permit of the declaration of that dividend.

Mr. PECORA. But the fact of the matter is that by the withdrawal of that property, worth nearly \$4,000,000, which was wholly owned by the Detroit Trust Co. for future purposes, that amount of assets was made unavailable to depositors of the Detroit Trust Co. Isn't that so?

Mr. VERHELLE. No, sir.

Mr. PECORA. Why isn't it so?

Mr. VERHELLE. The depositors had no occasion to make a call on us.

Mr. PECORA. But for future purposes that amount became unavailable to those depositors, didn't it?

Mr. VERHELLE. If the occasion arose; yes.

Mr. PECORA. Yes; if the occasion arose.

Mr. VERHELLE. All right.

Mr. PECORA. Do you know whether the depositors of the Detroit Trust Co. were ever informed of that action?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. When and by what means was that information conveyed to them?

Mr. VERHELLE. By means of the statements published by the Detroit Trust Co. at frequent intervals. Also by newspaper publicity at the time when this took place, and—[after a pause] well, I think that is all.

Mr. PECORA. I want you to produce here as soon as you can bring them here any publications that you referred to. Will you do so?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. I have before me, Mr. Verhelle, what purports to be a printed copy of the annual report to stockholders of the Detroit Bankers Co. for the year 1931. Will you be good enough to look at it and tell me, first, if you can identify it as a true and correct copy of such printed annual report [handing the pamphlet to the witness]?

Mr. VERHELLE. It is, sir.

Mr. PECORA. Senator Couzens, I wish to offer it in evidence, but inasmuch as it is quite lengthy it need not be spread in full on the record.

Senator COUZENS (presiding). The printed annual report will be marked by the committee reporter as the committee exhibit, but it will not be incorporated in the record.

(The printed annual report for 1931 of the Detroit Bankers Co. was marked "Committee Exhibit No. 9, Jan. 24, 1934", and will be filed with the records of the subcommittee, but not to be printed in the hearings.)

Mr. PECORA. Mr. Verhelle, will you be good enough to look through this annual report, which has been received in evidence as committee exhibit no. 9 of this date, and see if you can find any reference whatsoever therein to the fact that on December 1, 1931, through the medium of this special dividend, the capital funds, including surplus and undivided profits of the Detroit Trust Co., had been depleted by nearly \$4,000,000 in favor of the Detroit Bankers Co.?

Mr. VERHELLE. Do you say, in favor of the Detroit Bankers Co.?

Mr. PECORA. Yes.

Mr. VERHELLE. That, of course I could not show.

Mr. PECORA. And you cannot show it because there is no mention of it at all in the report; isn't that so?

Mr. VERHELLE. No. I cannot show it because you have asked me two questions, first of all, to show it, and, secondly, to show it as having been declared in favor of the Detroit Bankers Co.

Mr. PECORA. Well, now, answer the first part of that question, or what you call the first part of the question.

Mr. VERHELLE. A statement of condition is published there.

Mr. PECORA. As of the close of business December 31, 1931.

Mr. VERHELLE. Yes. It shows the capital structure, including undivided profits, surplus, and capital stock, of approximately \$8,000,000.

Mr. PECORA. Yes. Go ahead.

Mr. VERHELLE. Whereas the statement of 1 year previous to that shows a capital structure of \$14,000,000, and the statement of 6 months before that time shows a capital structure of \$12,700,000.

Mr. PECORA. Well, now, that is just exactly what I thought you were going to do, Mr. Verhelle. You deduced by comparing the statement of condition of the Detroit Trust Co., which is included in this annual report to stockholders of the Detroit Bankers Co., with the annual report for the preceding year. But I asked you to point out anywhere in the annual report to stockholders for the year 1931 issued by the Detroit Bankers Co., any reference at all to the declaration of that special dividend, and to its consequent depletion of the capital funds or assets of the Detroit Trust Co.

Mr. VERHELLE. There is no specific statement in there to that effect.

Mr. PECORA. Is there any statement shown there whatsoever to that effect, whether specific, general, obscure, or of any other kind or nature?

Mr. VERHELLE. By means of comparison, of course, as I have already indicated, it could be quite simply deduced.

Mr. PECORA. And that is the only way. There is nothing in the report itself for the year 1931 that gives a reader of it any such knowledge or information, is there?

Mr. VERHELLE. No, sir.

Mr. PECORA. And the declaration of that special dividend; is that right?

Mr. VERHELLE. No, sir.

Mr. PECORA. Now, let us adopt for the time being the method that you have resorted to, whereby, as you say, a person reading the annual report to stockholders of the Detroit Bankers Co. for the year 1931 and by comparing that report with the annual report issued for the preceding year of 1930, would learn that there had been any declaration of this special dividend. Is it possible even by that method to learn of that?

Mr. VERHELLE. I am terribly sorry, but the question is so long and involved that I do not get it. Do you ask: By simply reading it is it possible to learn that?

Mr. PECORA. And by comparing it with the annual report for the previous year?

Mr. VERHELLE. Yes. It is to be noted that there has been a reduction if one will make such comparison; very decidedly so, as I have said.

Mr. PECORA. Well, all that such a comparison would show to a person making it would be, that there had been a reduction of the capital funds of the Trust Co., isn't that so?

Mr. VERHELLE. That is correct.

Mr. PECORA. But that wouldn't show how the reduction had been effected, would it?

Mr. VERHELLE. No. It shows a worse picture than really existed.

Mr. PECORA. And it would not show who the beneficiary was of that reduction of the capital funds, would it?

Mr. VERHELLE. (Witness shakes his head).

Mr. PECORA. Is that right?

Mr. VERHELLE. No, sir.

Mr. PECORA. It would not show anything at all, for instance, about this special dividend having been declared in favor of the Detroit Bankers Co., would it?

Mr. VERHELLE. No, sir.

Mr. PECORA. Now, as a matter of fact, by this process of the surrender for cancelation of 20,000 shares of the capital stock of the First Detroit Co. which the Detroit Bankers Co. received through the medium of this special dividend, the Detroit Bankers Co. was able to raise the sum of \$2,000,000, which it applied to the reduction of this \$7,000,000 indebtedness in December of 1931, didn't it?

Mr. VERHELLE. Well, I am not certain whether that is the same \$2,000,000 dollars that was applied on that indebtedness, if \$2,000,000 was applied on that date.

Senator COUZENS. What other sources would you have from which to pay that money?

Mr. VERHELLE. There was another $1\frac{1}{2}$ million dollars declared.

Mr. PECORA. I am coming to that.

Mr. VERHELLE. I haven't the two amounts quite straight in my mind, as to which is which.

Mr. PECORA. Well, I will come to the $1\frac{1}{2}$ million dollars now in your mind, but before I do that I want you to answer my question about the 2 million-dollar reduction.

Mr. VERHELLE. As to whether or not—

Mr. PECORA (continuing). In other words, the only way by which the Detroit Bankers Co. reduced its indebtedness of 7 million dollars to 5 million dollars up to the end of December 1931, was through the declaration of this special dividend of 30,000 shares of stock of the First Detroit Co., and the surrender for cancelation for the sum of 2 million dollars, of 20,000 shares of those 30,000 shares, is that so?

Mr. VERHELLE. No, sir. I cannot commit myself on the point of that 2 million dollars, that it was used in connection with that reduction.

Mr. PECORA. All right. What was that 2 million dollars used for according to your best recollection?

Mr. VERHELLE. That 2 million dollars, plus another $1\frac{1}{2}$ million dollars, resulting in a total of $3\frac{1}{2}$ million dollars, was to my recollection put together in one basket, so to speak, and 2 million dollars removed from it and applied to that indebtedness. Now, I am not certain whether it was that 2 million dollars or whether it was \$500,000 of the $1\frac{1}{2}$ million dollars, or just which 2 million dollars it was. And now, Mr. Pecora, I should like to make a correction in the statement I have just made: The report definitely states to stockholders that the Detroit Trust Co., having transferred its ownership of the First Detroit Co. from its books to those of the Detroit Bankers Co., is now devoting its entire attention, and so forth, thus definitely notifying stockholders of the fact that that had been switched to the Detroit Bankers Co. That is in the same report you had there, page—well, there is no page numbering of the report.

Mr. PECORA. Do you think that definitely notifies stockholders of this declaration of the special dividend?

Mr. VERHELLE. It mentions specifically that there has been that transfer made.

Mr. PECORA. Well, we will see by looking at it. What page were you looking at or reading from?

Mr. VERHELLE. The pages are not numbered. This is the December 31, 1931, statement.

Mr. PECORA. Where is it to be found?

Mr. VERHELLE. It is about the third page over, after the names. The paragraph begins with "The Detroit Trust Co.—"

Mr. PECORA. Well, now, the statement that you refer to textually is as follows:

The Detroit Trust Co., having transferred the ownership of the First Detroit Co. from its own books to those of the Detroit Bankers Co., is now devoting its entire attention to activities of a purely corporate and fiduciary nature.

Is that the statement that you refer to?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And you say that that statement specifically informs stockholders of the declaration of the special dividend?

Mr. VERHELLE. No, sir.

Mr. PECORA (continuing). In favor of the Detroit Bankers Co.?

Mr. VERHELLE. No, sir.

Mr. PECORA. So far as this statement shows upon its face and according to its text, does it indicate whether or not any consideration was paid by the Detroit Bankers Co. to the Detroit Trust Co. upon the transfer of ownership of those shares of the First Detroit Co.?

Mr. VERHELLE. Not to the best of my knowledge.

Mr. PECORA. Oh, no; not according to the best of your knowledge, but does it appear in black and white on the statement which you refer to?

Mr. VERHELLE. No, sir.

Mr. PECORA. So that anyone reading that statement could just as well infer from the language employed that there was a consideration paid by the Detroit Bankers Co. to the Detroit Trust Co. upon the transfer of ownership, could he not?

Mr. VERHELLE. Well, it is hard to conceive that one could, because anyone who would be interested in reading that statement would, quite naturally, refer to the balance sheet of the Detroit Trust Co. and make a comparison between that which is published in here and that which was published in the previous report.

Mr. PECORA. You mean in the one of the previous year?

Mr. VERHELLE. Yes; or the one of 3 months before that.

Mr. PECORA. And that is what you call giving stockholders specific information of that special dividend, do you?

Mr. VERHELLE. No, sir.

Mr. PECORA. Well, that was the very term you used, specifically informing him, you said, basing it upon this statement or annual report of 1931.

Mr. VERHELLE. I do not recall those exact words.

Mr. PECORA. Now, Mr. Verhelle, I want to address myself to you with regard to this one and one half million dollars that you have already made some reference to.

Mr. VERHELLE. All right.

Mr. PECORA. How did the Detroit Bankers Co. receive that one and one half million dollars that you have in mind and which you have already spoken of?

Mr. VERHELLE. Substantially in the form of a dividend for the purpose of reducing the indebtedness of the First National Co.

Mr. PECORA. Well, do you know when the Detroit Bankers Co. got that one and one half million dollars substantially in the form of a dividend?

Mr. VERHELLE. I do not recall the exact date.

Mr. PECORA. I have it here as being December 23, 1931. Would that refresh your recollection?

Mr. VERHELLE. That is approximately the time, I think.

Mr. PECORA. Do you know the circumstances that surrounded the declaration of that special dividend of one and one half million dollars by the First National Bank in Detroit?

Mr. VERHELLE. I believe I do.

Mr. PECORA. Will you tell the committee about it, please?

Mr. VERHELLE. In the latter part of 1931, in order to show a true statement of condition, that is, not simply a set of figures, it was decided to write off a substantial amount of the assets appearing on the books of the various units. In fact, all the losses that were indicated by examination were to be written off or indicated by various examinations, I should say, so that a true statement might be reflected, not simply consisting of figures but one having real assets behind them. Among the various liabilities that existed, it being quite a question among the legal fraternity as to who was responsible, liable, or what-not in connection with the First National Co. debt, it was there and had to be cleaned up, and after giving due consideration to all methods available, it was thought best, after consultation with banking departments, both State and National, to provide $5\frac{1}{2}$ million dollars toward the liquidation of this debt.

Mr. PECORA. What debt are you referring to now?

Mr. VERHELLE. The 4 million dollars, and the $1\frac{1}{2}$ million dollars, and $1\frac{1}{2}$ million dollars of this was to be provided from the banking units.

Mr. PECORA. The 4-million-dollar debt is the one.

Mr. VERHELLE. The one we have been discussing; yes.

Mr. PECORA. The one owed to the Chase National Bank.

Mr. VERHELLE. The entire indebtedness was the point involved at that time.

Mr. PECORA. The entire indebtedness had been reduced, as we have seen, from 7 million dollars to 5 million dollars, of which 3 million dollars was due and owing to the Detroit Trust Co. and 2 million dollars to the Chase National Bank on this reduction.

Mr. VERHELLE. I believe there was more than that owing at that time.

Mr. PECORA. I am talking about the 7-million-dollar indebtedness with which the Detroit Bankers Co. virtually was born.

Mr. VERHELLE. Well, we had not only in mind that particular indebtedness, but all indebtedness, and the purpose was to get rid of all indebtedness.

Mr. PECORA. Owing by whom, the Detroit Bankers Co.?

Mr. VERHELLE. Owing by any of the units, to take care of their dead assets, to write them down to a point where there was real value behind the figures.

Mr. PECORA. Well, now, are you talking about the indebtedness only of the units or the indebtedness of the Detroit Bankers Co. as a separate corporate entity?

Mr. VERHELLE. The indebtedness of the Detroit Bankers Co. aside from its capital indebtedness, that is, its outstanding stock, was limited.

That is, its other indebtedness was limited to the indebtedness of its units. It had no indebtedness of its own other than that of the First National—

Mr. PECORA (interposing). Other than the \$7,000,000 we have been talking about all afternoon.

Mr. VERHELLE. Yes. So that, so far as the Detroit Bankers Co. was concerned, the only point involved was this \$7,000,000. The one and one half million dollars was declared in the form of a dividend to the Detroit Bankers Co.—

Mr. PECORA (interposing). All right. Which banking unit declared that dividend?

Mr. VERHELLE. The First National Bank.

Mr. PECORA. And it declared it on December 23, 1931, or thereabouts?

Mr. VERHELLE. Thereabouts; yes, sir.

Mr. PECORA. It was in the form of a special cash dividend, wasn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Well, through the medium of this special cash dividend of $1\frac{1}{2}$ million dollars was it hoped to take care of the outstanding indebtedness existing at that time?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Of all the units?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. As distinguished from the \$7,000,000 indebtedness of the holding company?

Mr. VERHELLE. Well, no; you could not do that, because the indebtedness of the units included the deposit indebtedness. Of course, technically speaking, I should say not.

Mr. PECORA. You know what kind of indebtedness I mean.

Mr. VERHELLE. As far as the kind of indebtedness is concerned, not including such a thing as deposits, the payment or normal debts of banking units in the normal performance of their business, it was hoped that by the declaration of that dividend, and the normal operations, this thing we have been discussing here, the \$7,000,000, and the \$1,500,000 and so forth, would be eliminated, and the Detroit Bankers Co. pulled out of the particular hole they were in at that particular time.

Mr. PECORA. Are you familiar with the terms of the resolution adopted by the board of directors of the First National Bank in Detroit in connection with the declaration of this special cash dividend of \$1,500,000?

Mr. VERHELLE. Generally speaking I am, because I know what the intent was. But if you have anything to refresh my memory, all right.

Mr. PECORA. What was that intent?

Mr. VERHELLE. The general intent was to liquidate the indebtedness of the First National Co.

Mr. PECORA. That was the general intent, was it?

Mr. VERHELLE. That was the general intent.

Mr. PECORA. You have been talking here, if I have correctly followed your testimony, about liquidating the indebtedness of the various units, and not of the First Detroit Co.

Mr. VERHELLE. I have done two things, though, in connection with that. I have hooked up the resultant dividend from the First National Bank, and I am not familiar with which dollars it was used. But I think that is immaterial in the point you are driving at.

Mr. PECORA. Go ahead with your explanation.

Mr. VERHELLE. And the outstanding indebtedness that was involved here was that which we have been discussing, the \$7,000,000, or the \$7,200,000, or whatever it was.

Mr. PECORA. Now, I want to ask Mr. Ballantyne some questions.

Mr. BALLANTYNE. All right.

Mr. PECORA. Mr. Ballantyne, were you a member of the board of directors of the First National Bank in Detroit, in December of 1931?

Mr. BALLANTYNE. Oh, yes.

Mr. PECORA. Do you recall the action taken by the board of that bank at that time with reference to the declaration of this special dividend of \$1,500,000?

Mr. BALLANTYNE. I don't know that I have it very clear in my mind, but I know about it. I do not know specifically what action was taken. But I know that it was not used as specified.

Mr. PECORA. It was not used as specified?

Mr. BALLANTYNE. No.

Mr. PECORA. That is just what I wanted to bring out.

Mr. BALLANTYNE. Oh, no.

Mr. PECORA. Why wasn't it used as specified?

Mr. BALLANTYNE. Well, I think, specifically under the direction of the Comptroller's office, \$750,000 was used in that Pontiac situation, the First National Bank of Pontiac. We were commanded virtually to go out and save that situation, as we did. Now, that \$750,000 was put up for new capital in that bank. At the same time the directors of the bank put up securities amounting to \$500,000 with the Detroit Trust Co. At the same time the General Motors Corporation agreed to keep a million dollars at that bank. We thought we had created a very strong unit. It was done very deliberately.

Mr. PECORA. Let me read to you the resolution in pursuance of which this dividend of \$1,500,000 was declared.

Mr. BALLANTYNE. All right.

Mr. PECORA. I am reading from a photostatic copy of the minutes of the meeting of the board of directors of the First National Bank in Detroit, held December 22, 1931:

Whereas the net assets to be contributed by this bank on consolidation thereof with the Peoples Wayne County Bank, were fixed at \$12,654,968.61, by first setting up a reserve of \$1,500,000 out of the total net assets of this bank, to assist in the liquidation of the First National Co. of Detroit, Inc., which is affiliated with and largely indebted to this bank:

Resolved, that to carry out the purpose of said reserve, and make as much of the \$1,500,000 or substantially all thereof, available for liquidation of the indebtedness of said First National Co., there is hereby declared payable to all shareholders of record of this bank at the close of business on the date hereof, said shareholders being also beneficial owners in the same proportion of all the capital stock of said First National Co., a dividend in the sum of \$1,500,000, provided said shareholders or substantially all thereof, agree in advance or in receipting for said dividend, to apply the same or substantially all thereof, in liquidation of the indebtedness of said First National Co., other than the indebtedness thereof to any shareholder or beneficial owner of shares thereof.

Mr. BALLANTYNE. That is true. I am sure of that.

Mr. PECORA. So that this special dividend was declared for the specific purpose enumerated therein, of assisting in the liquidation of the First National Co. of Detroit, which was the wholly-owned subsidiary of the First National Bank in Detroit, isn't that so?

Mr. BALLANTYNE. I suppose it was wholly owned, but I don't know whether it was wholly owned or not.

Mr. PECORA. Well, I have just read the terms of the resolution to you. And before I read it, you, yourself volunteered the statement that this special dividend of $1\frac{1}{2}$ million dollars was not used for the purposes for which it was specified to be used.

Mr. BALLANTYNE. I admitted that. But still it was used for the purpose for which it was used under the direct instructions of the Comptroller of the Currency, or his representative; and I believe there is written evidence of that somewhere.

Mr. PECORA. Produce that written evidence, will you?

Mr. BALLANTYNE. I cannot produce it. I haven't got it.

Mr. PECORA. Where is it?

Mr. BALLANTYNE. I don't know.

Mr. PECORA. Did you ever see it?

Mr. BALLANTYNE. No.

Mr. PECORA. How did you come to know about it?

Mr. BALLANTYNE. Mr. Mark Wilson told me about it?

Mr. PECORA. Who?

Mr. BALLANTYNE. Mr. Mark Wilson.

Mr. PECORA. Mr. Mark Wilson told you about it?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And he never showed you the written evidence?

Mr. BALLANTYNE. I don't recall that he did. But I think Mr. Leyburn would admit it.

Mr. PECORA. Mr. Leyburn will be here later on.

Mr. BALLANTYNE. Well, he will probably admit that.

Mr. PECORA. You better wait until you hear his testimony. Let us not attempt to assume anything on that.

Mr. BALLANTYNE. All right.

Mr. PECORA. Now, I am asking you as a director of the First National Bank in Detroit at the time of the declaration of this special dividend, why, if it was intended to use it for a purpose other than that specified in the resolution, this resolution was adopted in the form in which I have read it to you?

Mr. BALLANTYNE. It was not intended to use it in a different way from that.

Mr. PECORA. What is that answer?

Mr. BALLANTYNE. There was no idea of using it for any different purpose than is indicated there.

Mr. PECORA. Then why wasn't it used for the purpose indicated in the resolution?

Mr. BALLANTYNE. The notes were probably not due at that time. We did not anticipate the payment of notes. Possibly any one of half a dozen reasons can be given. But the fact remains that this bank in Pontiac had a very severe run. It was the only bank left in Pontiac. It was a national bank, and the Comptroller of the Currency was greatly concerned about it, or his representative was, and he asked us to go to the aid of that bank. We told him we had no money to do that, and he spoke specifically of this money in the Bankers Co., and told us to use it. Am I not right in that, Mr. Verhelle?

Mr. VERHELLE. Yes; for the purpose of saving that situation.

Mr. BALLANTYNE. Those were strenuous days, Mr. Pecora.

Mr. PECORA. Well, they were strenuous days, and during all those strenuous days large dividends were being paid by the Detroit Bankers Co., or that group, to its stockholders, isn't that so?

Mr. BALLANTYNE. Well, I am not prepared to say.

Mr. PECORA. Dividends at the rate of 17 percent on the par value of the capital stock.

Mr. BALLANTYNE. The dividends that were paid were earned.

Mr. PECORA. Those were dark days, and perilous days, for the purpose of meeting the indebtedness of the company, but they were not perilous days for the purpose of paying out dividends to shareholders, were they?

Mr. BALLANTYNE. Well, I don't know that I should like to have it put in that way. They were dark days. No one knows that better than I do. I was endeavoring at this particular time to effect economies, other than firing men altogether. We had within 6 or 8 months effected economies to the tune of \$4,860,000, not actual economies made, but on a yearly ratio it was that. We cut down our dividend in January of 1932. That saved \$1,700,000. We were prepared to do anything that was necessary to save that situation, and above all, I wanted to have honest values back of the figures made by that bank. I had no other intent. What other intent could I have?

Mr. PECORA. Well, let us see what happened here in December of 1931, just prior to the declaration of this special dividend of 1½ million dollars by the First National Bank in Detroit. The First National Co., which was the wholly owned investment affiliate of the First National Bank in Detroit, owed the bank a large indebtedness, didn't it?

Mr. BALLANTYNE. I could not tell you just exactly what it did owe the bank.

Mr. PECORA. It had an indebtedness outstanding around one and a half million dollars or more?

Mr. BALLANTYNE. The bank?

Mr. PECORA. No; the investment company.

Mr. BALLANTYNE. That is right.

Mr. PECORA. The First National Co.; is that right?

Mr. BALLANTYNE. Well, I am not sure.

Mr. PECORA. In order to enable the First National Co. to liquidate its indebtedness, according to the terms and the tenor of this resolution, a special cash dividend of one and a half million dollars was declared?

Mr. BALLANTYNE. Yes; I believe so.

Mr. PECORA. But the money which came out of the capital fund or earnings of the First National Bank, in order to pay that special dividend, was not used for the purpose for which the directors voted that special dividend, was it?

Mr. BALLANTYNE. I think the directors did pass resolutions in regard to that bank and using that money. I cannot tell you what they are; but I know that they concurred in the operation, that changed operation.

Mr. PECORA. When did they do that—how long after December 22, 1931?

Mr. BALLANTYNE. When was that change made? It certainly was not any act of mine.

Mr. PECORA. When was that use made for the purposes of the Pontiac bank, of this money represented by this special dividend?

Mr. BALLANTYNE. Do you remember that, Senator?

Senator COUZENS. No; I do not.

Mr. BALLANTYNE. I cannot recall. I can find out for you.

Senator COUZENS. When you went to the aid of the First National Bank & Trust Co. of Pontiac, how large a stockholder were you?

Mr. BALLANTYNE. We owned the whole stock.

Mr. VERHELLE. No.

Mr. BALLANTYNE. Prior to that time there were some holdings in the First National Co.—I have forgotten the amount.

Mr. VERHELLE. I have the answer on the Pontiac question.

Mr. PECORA. All right.

Mr. VERHELLE. The agreement was dated February 26——

Mr. PECORA. 1932?

Mr. VERHELLE. Yes; 1932—which was, of course, some time after the actual development of the situation.

Mr. PECORA. It was 2 months after the declaration, for a specified purpose other than that for which it was ultimately used, of this special dividend?

Mr. VERHELLE. Yes. That is, the actual agreement resulting in the set-up that finally took place, which agreement, by the way, contemplated a deposit on the part of the directors of that bank of some half a million dollars, which took some time to scrape together.

Mr. PECORA. Mr. Ballantyne, will you, as a director of the First National Bank in Detroit at the time this special dividend was declared, tell this committee how you justify taking a million and a half dollars out of the capital assets of your bank in the form of this special dividend and using it for the benefit of another bank up in Pontiac?

Mr. BALLANTYNE. My dear sir, we made it very plain to the Comptroller that it was money used for that purpose at the time. I know that was done.

Mr. PECORA. When you say "we made it plain", you mean that the Detroit Bankers Co. officials made it plain, don't you?

Mr. BALLANTYNE. Yes.

Mr. PECORA. How do you, as an officer of the First National Bank in Detroit, justify taking a million and a half dollars in the form of this special cash dividend out of the capital assets of your bank and making that sum unavailable to the depositors of your bank and using it to go to the relief of a bank up in Pontiac?

Mr. BALLANTYNE. Do you know where Pontiac is in relation to Detroit?

Mr. PECORA. All I know is that it is another bank, not the First National Bank of Detroit, and you were taking money of your bank that should have been left there for the protection of its own depositors. That is the point I am making, Mr. Ballantyne, and I ask you if you can justify what was done in that respect.

Mr. BALLANTYNE. I could, sir. I feel perfectly justified.

Mr. PECORA. Go ahead and justify it. By what processes do you justify it?

Mr. BALLANTYNE. It was a great emergency, and our bank was linked up with that bank in name—the First National Bank of Pontiac and the First National Bank of Detroit——

Mr. PECORA. How many other first national banks are there throughout Michigan?

Mr. BALLANTYNE. Oh, well, Pontiac and Detroit are very close together.

Mr. PECORA. How many other first national banks are there in Michigan?

Mr. BALLANTYNE. Oh, I don't know.

Mr. PECORA. A large number, are there not, in all probability?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Did you feel a moral responsibility as an officer of the First National Bank of Detroit for that bank to go to the rescue of another bank merely because its name was "First National"?

Mr. BALLANTYNE. Mr. Pecora, I think the thing was justifiable. I did not do it.

Mr. PECORA. You were one of the directors that voted for this resolution, were you not?

Mr. BALLANTYNE. I don't know that I was; but I did not object to it.

Senator COUZENS. I would like to ask you or Mr. Verhelle when that million and a half dollars was actually sent to Pontiac?

Mr. BALLANTYNE. It was not a million and a half; it was seven hundred and fifty thousand.

Mr. VERHELLE. I would say, approximately, somewhere between the first of the year and February 26.

Senator COUZENS. That is a long stretch. Can you come any nearer that that?

Mr. VERHELLE. \$750,000 of it, roughly speaking, about February 26, assuming that that is the correct date of the agreement.

Senator COUZENS. So that was the time that this \$750,000 was actually transferred to Pontiac?

Mr. VERHELLE. I would say that is, within a few days.

Senator COUZENS. Where was this million and a half dollars between the time the dividends were declared by the First National Bank of Detroit and the time the \$750,000 went to Pontiac?

Mr. VERHELLE. There was a certificate of deposit for \$1,000,000 at the Trust Co. and a certificate of deposit of \$500,000 with the First National Bank.

Senator COUZENS. Why were those certificates of deposit taken out when the dividend was specifically declared for the purpose of liquidating the First National Co.'s indebtedness?

Mr. VERHELLE. In order to save the liquidity of those institutions.

Senator COUZENS. You put \$500,000 back in your own bank which declared a dividend, and you put a certificate of deposit in the First National?

Mr. VERHELLE. Yes.

Senator COUZENS. And you took it out and put it back to maintain the liquidity?

Mr. VERHELLE. Another reason was that the notes were not due at that particular time; there was no particular occasion to pay it. There were numerous reasons for handling the mechanics of the transaction exactly as it was handled; and then right after that this Pontiac situation broke and the bank had hopelessly involved—the

First National Bank in Pontiac had hopelessly involved the First National Bank of Detroit in this situation through its publicity, and so forth, which took place at the time these stocks were bought, and that was the principal reason for the recommendation of the Comptroller's office.

Senator COUZENS. At that time what percentage of the First National Bank & Trust Co. of Pontiac did the First National Co. of Detroit own?

Mr. VERHELLE. They owned \$97,300, or \$93,700, one or the other, par value of the stock of this Pontiac bank. The total outstanding stock I am not certain of at this particular time.

Senator COUZENS. What was it, substantially? What percentage of that \$93,000 or \$97,000 was that of the whole outstanding capital stock?

Mr. VERHELLE. I do not know, sir.

Senator COUZENS. So, because of the ownership of that——

Mr. VERHELLE. Approximately 16 percent, roughly.

Senator COUZENS. So, because of the ownership of 16 percent of the stock, you felt obligated to go up and save the First National Bank in Pontiac?

Mr. VERHELLE. Oh, no.

Senator COUZENS. What was the reason?

Mr. BALLANTYNE. There were a number of reasons.

Senator COUZENS. Was the First National Bank of Pontiac indebted to the First National Bank of Detroit?

Mr. BALLANTYNE. As Mr. Verhelle stated, the First National Bank, unknown to us, had in some way implicated us in their advertising.

Senator COUZENS. How?

Mr. BALLANTYNE. They indicated that they were under the big umbrella and were the progeny of the First National Bank.

Senator COUZENS. Were they indebted to the First National Bank of Detroit?

Mr. BALLANTYNE. I do not believe so, at that time.

Senator COUZENS. Do you know, Mr. Verhelle?

Mr. VERHELLE. I doubt very much if they were; I don't believe they were indebted to the First National Bank. It was simply a case of close proximity to Detroit; the fact that they had linked up the names very closely in their advertising; and not to do it might very well have resulted in a general conflagration, and in order to save all of the depositors and prevent this conflagration the banking department recommended and urged the use of this money for that purpose under the emergency then existing.

Mr. PECORA. When was the First National Bank of Pontiac organized?

Mr. VERHELLE. Originally?

Mr. BALLANTYNE. Originally, before this time?

Mr. PECORA. When was the bank called the First National Bank of Pontiac organized?

Senator COUZENS. The First National Bank & Trust Co. was the proper name, was it not?

Mr. VERHELLE. Isn't it "at Pontiac"? It was changed from "of" to "at" at one time or another. I can tell you when it was reorganized: I cannot tell you when it was organized. It was away back.

Senator COUZENS. When was it reorganized; prior to your putting in the \$750,000?

Mr. VERHELLE. I would not know that. I am referring to the reorganization that took place at the time we deposited the \$750,000.

Mr. PECORA. That reorganization took place on February 27, 1932, as I understand it.

Mr. VERHELLE. Yes. The agreement was dated—

Mr. PECORA. Who reorganized it and under what auspices was it reorganized?

Mr. VERHELLE. Under the auspices of the Detroit Bankers Co.

Mr. PECORA. And the Detroit Bankers Co. reorganized it with a capital of \$500,000 and paid-in surplus of \$250,000?

Mr. VERHELLE. That is correct.

Mr. PECORA. And \$750,000, as you say, was used out of this special dividend of a million and a half dollars for the relief of the bank at Pontiac?

Mr. VERHELLE. Yes.

Mr. PECORA. Do you recall, Mr. Verhelle—and I think I will examine you, because you seem to be more familiar with the details—that at the time, in December 1931, when the Detroit Bankers Co. surrendered 20,000 of the 30,000 shares of the First Detroit Co., which it had received as a special dividend on the first of December 1931, and obtained \$2,000,000 upon the cancelation of those 20,000 shares, it paid back those \$2,000,000 to the Chase National Bank in reduction of its loan from \$4,000,000 to \$2,000,000? Do you recall that?

Mr. VERHELLE. I still do not recall whether that is that \$2,000,000, sir.

Mr. PECORA. You are going to confirm that?

Mr. VERHELLE. I would have to look at the records.

Mr. PECORA. Do you recall that at that time the Detroit Bankers Co. borrowed \$2,000,000 from the Continental Illinois Bank & Trust Co. of Chicago—speaking now, specifically, of the date of December 29, 1931?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Do you recall that transaction?

Mr. VERHELLE. I have a vague notion of that, and that is why I have been questioning your statement that \$2,000,000 was used to pay Chase.

Mr. PECORA. Do you recall that borrowing from the Continental Bank of Chicago?

Mr. VERHELLE. I recall a large borrowing from the Continental of Chicago, at the end of the year.

Mr. PECORA. Do you recall what was done with that \$2,000,000 which the Detroit Bankers Co. borrowed from the Continental Illinois Bank & Trust Co. of Chicago?

Mr. VERHELLE. No, sir; I do not.

Mr. PECORA. Do you recall that it used that \$2,000,000 for the purpose of discharging the remainder of its obligation?

Mr. VERHELLE. The Chase National Bank was paid up, according to the records.

Mr. PECORA. And that completed the remainder of the \$4,000,000 indebtedness which the Detroit Bankers Co. owed to the Chase National Bank?

Mr. VERHELLE. If the records so indicate I would take it for granted that that is so, sir.

Mr. PECORA. Would it refresh your recollection if I read to you a letter addressed to Mr. Charles S. McCain, chairman of the board of the Chase National Bank, New York City, dated December 26, 1931, in reference to this loan?

Mr. VERHELLE. Very likely it would, sir.

Mr. PECORA. I will read it [reading]:

DEAR CHARLIE: Enclosed you will find a letter of authority from the First National Bank in Detroit signed by F. Howard Rust, vice president, authorizing you to charge the account of the First National Bank with \$4,011,277.75 in payment in full of the loan of the Detroit Bankers Co. with you, due December 29. This pays up this loan as I have advised you was being arranged.

Many thanks for your courtesies, which we all appreciate.

Sincerely yours.

Senator COUZENS. By whom is it signed?

Mr. PECORA. It is signed by one of the vice presidents.

Mr. VERHELLE. That closed it up. Quite naturally I have not seen that letter, and quite naturally I would not know the specific amount outstanding.

Mr. PECORA. With regard to the borrowing of the \$2,000,000 from the Continental Illinois Bank & Trust Co., see if this will refresh your recollection. It is on the letterhead of the Continental Illinois Bank & Trust Co. of Chicago, dated December 24, 1931, addressed to Mr. Mark A. Wilson, vice president, Detroit Bankers Co., Detroit, Mich. [reading]:

DEAR MARK: I have your letter of December 22, enclosing resolution of your board of directors authorizing borrowing of \$2,000,000 which we propose to lend you. As requested I am enclosing herewith some blank note forms for your use in borrowing this money. You ask as to what the rate will be. I want to meet your views in this connection and would like to have an expression from you as to what you think you should pay, giving consideration to the changed conditions since the time you renewed the note.

Very truly yours.

It is signed by Stirling V. Cramer, vice president.

Do you recall that now?

Mr. VERHELLE. I recall that loan being made, not the specific letter, of course.

Mr. PECORA. Does the reading of these two letters refresh your recollection concerning the fact that the \$4,000,000 indebtedness which the Detroit Bankers Co. owed the Chase National Bank in December 1931 was entirely paid off?

Mr. VERHELLE. I would say it does; yes.

Mr. PECORA. Does it refresh your recollection to the effect that the \$4,000,000 was obtained by the Detroit Bankers Co. in the following fashion: \$2,000,000 of it by a loan of that amount from the Continental Illinois Trust Co. of Chicago; \$2,000,000 of it through the surrender and cancelation of 20,000 of the 30,000 shares of the capital stock of the First Detroit Co.?

Mr. VERHELLE. No, sir.

Mr. PECORA. You are still puzzled about what was done with the \$2,000,000 that the Detroit Bankers Co. got for those 20,000 shares of stock?

Mr. VERHELLE. I am puzzled about the commingling, if any took place. I am not sure that there did. Whether that is the \$2,000,000 or whether it is the million and a half or which moneys it was that were used for that purpose.

Mr. PECORA. Mr. Verhelle, I am surprised that you say you are puzzled as to whether or not the \$1,500,000 was used to pay back the Chase National Bank part of this indebtedness, in view of what you have told us here as to the use of at least \$750,000 of that million and a half to go to the relief of the bank at Pontiac.

Mr. VERHELLE. That \$750,000 was not necessarily out of that million and a half. It was out of that $3\frac{1}{2}$ millions.

Mr. PECORA. Mr. Ballantyne has been testifying here this afternoon, and within the last few minutes, that \$750,000 of that special dividend of $1\frac{1}{2}$ million went to the bank at Pontiac. Have you not heard his testimony?

Mr. VERHELLE. You may have him confused on that. Mr. Ballantyne did not put through those entries.

Mr. PECORA. I do not want anybody to be confused, nor do I want to be confused as to the facts. Will you brush up your recollection overnight on these things?

Mr. VERHELLE. I will try to do that.

Senator COUZENS. I am confused also, because this letter to Mr. McCain of the Chase National Bank is dated December 26, 1931, and at the time this dividend was declared, a million dollars of it was in the Detroit Trust Co., and the other half million was put back in the First National, and that was done in February. So how could any of that be used to pay off a debt on December 26, 1931?

Mr. VERHELLE. The entire $3\frac{1}{2}$ million dollars, to my way of thinking just at the present time—and I do not believe that you want me to state anything except that which I know—I am not clear as to the disposition of the actual dollars as they resulted from the \$2,000,000 and the million and a half dividends, as to their application. I can account for the reception of $3\frac{1}{2}$ millions; I can account for the disbursement of $3\frac{1}{2}$ millions, but which dollars were which I am not certain of at this particular moment.

Senator COUZENS. I asked you, if you placed a million dollars, out of that million and a half dividend, in the Detroit Trust Co., and a half million in the First National Bank, which was apparently there in February when you came to the relief of the First National Bank in Pontiac, how could you have used any of that to pay off the loans of the Chase National Bank in December 1931?

Mr. VERHELLE. We could not have done precisely that.

Senator COUZENS. We will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 4:24 p.m., the subcommittee adjourned until tomorrow, Thursday, Jan. 25, 1934, at 10 a.m.)

COMMITTEE EXHIBIT No. 1, JANUARY 24, 1934.

(Corporation for Pecuniary Profit)

ARTICLES OF ASSOCIATION

OF

DETROIT BANKERS COMPANY

We, the undersigned, desiring to become incorporated under the provisions of Act No. 84 of the Public Acts of 1921, entitled "An act to provide for the organization, regulation and classification of domestic corporations; to prescribe their rights, powers, privileges and immunities: to prescribe the conditions upon which corporations may exercise their franchises," etc., do hereby make, execute and adopt the following articles of association, to wit:

ARTICLE I.

The name assumed by this association, and by which it shall be known in law is

Detroit Bankers Company.

ARTICLE II.

This corporation intends to proceed under Sec. I, Chapter I, part I, of the above act.

ARTICLE III.

The purpose or purposes of this corporation are as follows:

To acquire, own, hold, vote and exercise all rights of ownership of and to sell and dispose of shares of the capital stock of banks and trust companies and of other corporations or associations engaged in purchasing, selling on their own account or as agents of others, underwriting or dealing in corporate and other securities, or of any other corporation engaged in any business or activity incidental to or related to or of assistance in the conduct of any such business aforesaid.

ARTICLE IV.

Principal place where company will operate is City of Detroit, in the County of Wayne, State of Michigan.

Address of main office in Michigan is Detroit, Michigan, at northeast corner of Michigan Avenue and Griswold Street.

Address of main office outside of Michigan is—none.

ARTICLE V.

The total capital stock authorized is Fifty Million (\$50,000,000.00) Dollars and one hundred and twenty (120) shares of no par value.

The amount subscribed is one hundred and twenty (120) shares of no par value.

The amount paid in is One thousand two hundred (\$1,200.00) Dollars.

The number of shares of Common Stock is two million five hundred thousand (2,500,000) of the par value of Twenty (\$20.00) Dollars each.

The number of shares of Non-Par Value Stock is one hundred and twenty (120); the price of each and at which they have been or it is proposed they shall be sold is Ten (\$10.00) Dollars.

The classification of the capital stock and the privileges, rights, voting powers and restrictions thereof are as follows:

The par value shares shall be known as Common Stock.

The non par value shares shall be all of one class and shall be known as Trustee Shares. Said Trustee Shares shall not participate in dividends, assets or subscription rights.

Until December 31, 1934, the Trustee Shares shall have exclusive voting power in the election and in the removal of Directors, and all other voting power shall be vested in the Common Stock, except that no increase or decrease of the capital stock or change in the number or qualification of directors shall be authorized or other class of stock created or the sale of all of the property or business of this corporation, or the sale of any substantial part of the shares of capital stock or property or business of the following institutions: the Peoples Wayne County Bank, the First National Bank in Detroit, the Detroit and Security Trust Company, the Bank of Michigan, or the Peninsular State Bank, shall be authorized except by and with the vote of at least two-thirds of all of the outstanding shares of the Common Stock and of a like proportion of the Trustee Stock. Upon December 31, 1934, said Trustee Shares shall be redeemed and cancelled on payment of Ten (\$10.00) Dollars per share. On and after January 1, 1935, all of the voting power of the stockholders shall be vested in the Common Stock.

During the time the voting powers in the election of directors shall be vested in the Trustee Shares the right to vote the same cumulatively shall obtain.

The right of holders of Common Stock to vote cumulatively for directors from and after the date the voting powers in the election of Directors shall be vested in the Common Stock shall be and the same is waived, and the Directors of this corporation shall be elected by the affirmative vote of a majority of the stock then entitled to vote present in person or by proxy at any meeting of such stockholders called for that purpose.

The amount of Common Stock paid for in cash is No Dollars and No Dollars have been paid in in property.

The amount of No Par Value Stock paid for in cash is One Thousand Two Hundred (\$1,200.00) Dollars.

The amount of actual capital in cash or property, or both, which this corporation owned and possessed at the time of executing these articles is One Thousand Two Hundred (\$1,200.00) Dollars.

ARTICLE VI.

The term of this corporation is fixed at thirty (30) years.

ARTICLE VII.

Names of stockholders, their residences and shares subscribed by each, are:

Names	Residences	Common stock	Trustee shares
Julius H. Haass.....	75 Cloverly, Grosse Pointe Farms, Michigan.....	None.....	10
John R. Bodde.....	3001 Seminole, Detroit, Mich.....	None.....	10
Emory W. Clark.....	8310 E. Jefferson, Detroit, Mich.....	None.....	10
D. Dwight Douglas.....	Rathbone Place, Grosse Pointe, Mich.....	None.....	10
Ralph Stone.....	Cranbrook Road, Bloomfield Hills, Mich.....	None.....	10
McPherson Browning.....	2940 Iroquois, Detroit, Mich.....	None.....	10
John Ballantyne.....	1570 Balmoral, Detroit, Mich.....	None.....	10
T. W. P. Livingstone.....	394 Rivard Blvd., Grosse Pointe, Mich.....	None.....	10
Herbert L. Chittenden.....	1011 Buckingham, Grosse Pointe Park, Mich.....	None.....	10
Fred J. Fisher.....	854 Arden Park, Detroit, Mich.....	None.....	10
William T. Barbour.....	2931 E. Jefferson, Detroit, Mich.....	None.....	10
Wesson Seyburn.....	16850 E. Jefferson, Grosse Pointe, Mich.....	None.....	10
Total.....		None.....	120

ARTICLE VIII.

The names and addresses of officers and directors for the first year of the corporation's existence, are as follows:

Names	Residences	Directors	Officers
Julius H. Haass.....	75 Cloverly, Grosse Pointe Farms, Mich.....	Yes.....	President.
John R. Bodde.....	3001 Seminole, Detroit, Mich.....	Yes.....	
Emory W. Clark.....	8310 E. Jefferson, Detroit, Mich.....	Yes.....	
D. Dwight Douglas.....	Rathbone Place, Grosse Pointe, Michigan.....	Yes.....	Vice President.
Ralph Stone.....	Cranbrook Road, Bloomfield Hills, Mich.....	Yes.....	
McPherson Brown- ing.....	2940 Iroquois Ave., Detroit, Michigan.....	Yes.....	
John Ballantyne.....	1570 Balmoral, Detroit, Mich.....	Yes.....	
T. W. P. Living- stone.....	394 Rivard Blvd., Grosse Pointe, Michigan.....	Yes.....	
Herbert L. Chitten- den.....	1011 Buckingham, Grosse Pointe Park, Mich.....	Yes.....	
Fred J. Fisher.....	54 Arden Park, Detroit, Mich.....	Yes.....	Secretary-Treas- urer.
William T. Barbour.....	2931 E. Jefferson, Detroit, Mich.....	Yes.....	
Wesson Seyburn.....	16850 E. Jefferson, Grosse Pointe, Michigan.....	Yes.....	
E. R. Lewright.....	15 E. Kirby, Detroit, Mich.....	No.....	

ARTICLE IX.

The following special statements pertaining to the primary organization of this corporation and not included in the foregoing requirements are set forth under this article.

(A) The holder of each share of Common Stock of this corporation shall be individually and severally liable for such stockholder's ratable and proportionate part (determined on the basis of their respective stockholdings of the total issued and outstanding stock of this corporation) for any statutory liability imposed upon this corporation by reason of its ownership of shares of the capital stock of any bank or trust company, and the stockholders of this company—by the acceptance of their certificates of stock of this company—severally agree that such liability may be enforced in the same manner and to the same extent as statutory liability may now or hereafter be enforceable against stockholders of banks or trust companies under the laws under which said banks or trust companies are organized or operate. A list of the stockholders of this company shall be filed with the Banking Commissioner of Michigan or the Comptroller of the Currency, whenever requested by either of those officers.

(B) The stock of the corporation authorized by these articles and any stock of this corporation authorized by any certificate of increase of the capital stock may be issued and disposed of by the Board of Directors to such persons, firms, corporations or associations in exchange for capital stock and/or assets of banks, trust companies or other corporations or associations included within the provisions of Article III. and upon such terms as the Board of Directors in their discretion may determine. In any of such instances no holder of any stock of this corporation shall be entitled, as of right, to subscribe for, purchase or receive any proportionate or other share of stock so to be issued. In case, however, the Board of Directors shall determine to issue any stock of the corporation created by these articles or by any certificate of increase of the capital thereof, for any other purpose than exchange as aforesaid, the holders of Common Stock of this corporation shall first be entitled to subscribe for, purchase and receive such stock to be issued, ratably and at such price and upon such terms as may be fixed from time to time by the Board of Directors.

(C) No contract or other transaction with any other corporation, association or firm shall be in any way affected or invalidated by the fact that any of the Directors of this corporation are Directors of or otherwise interested in such other corporation, association or firm. Any Director of this corporation may vote upon any contract or other transaction between this corporation and any subsidiary or affiliated corporation, without regard to the fact that he is also a Director of such subsidiary or affiliated corporation.

(D) No substantial part of the shares of the capital stock at any time owned by this corporation in any of the following named institutions—

Peoples Wayne County Bank
First National Bank in Detroit
Detroit and Security Trust Company
Bank of Michigan
Peninsular State Bank

shall be mortgaged, pledged or sold, nor shall consent be given to the mortgage, pledge or sale of the property or business of any of said institutions except by and with the vote of at least two-thirds of all of the outstanding shares of the Common Stock and—until December 31, 1934—of a like proportion of the Trustee Stock, except

(1) The Board of Directors may vote to consolidate or merge any one or more of said institutions with any one or more of the others of said institutions or with any one or more other institutions provided a like proportion of the shares of the capital stock of the resulting or continuing institution shall be acquired and owned by this corporation as were owned and held of the capital stock of said institution above named being a party to such consolidation or merger and the capital stock of said resulting or continuing institution so acquired shall likewise be subject to the limitations aforesaid; and

(2) The Board of Directors in order to qualify persons to act as directors or officers of any of the institutions aforesaid may sell to each such person the minimum number of shares required to so qualify such person but shall take back from each such person an appropriate and adequate option or agreement whereby this corporation shall have the absolute right to re-acquire said shares at any time when such person shall cease to be such director or officer.

Subject only to the limitations aforesaid the Board of Directors shall have full power and authority to mortgage, pledge, sell or otherwise deal with or dispose of any of the corporate property without action by or reference to the stockholders or any of them.

(E) The Board of Directors shall consist of twelve directors each of whom shall be—until December 31, 1934—the holder in his name as Trustee of ten shares of Trustee Stock, and thereafter shall be the owner in his own right of ten shares of the Common Stock of this corporation. The President shall be but no other officer need be a member of the Board of Directors or a stockholder.

IN WITNESS WHEREOF, We, the parties associating as shown under Article VII. of these articles, hereunto sign our names this 9th day of October A.D. 1929.

JULIUS H. HAASS.
JOHN R. BODDE.
EMORY W. CLARK.
D. DWIGHT DOUGLAS.
RALPH STONE.
McPHERSON BROWNING.
JOHN BALLANTYNE.
T. W. P. LIVINGSTONE.
HERBERT L. CHITTENDEN.
FRED J. FISHER.
WILLIAM T. BARBOUR.
WESSON SEYBURN.

STATE OF MICHIGAN,
County of Wayne, ss:

On this 31st day of December, A.D. 1929, before me, a Notary Public in and for said County, personally appeared Julius H. Haass, John R. Bodde, Emory W. Clark, D. Dwight Douglas, Ralph Stone, McPherson Browning, John Ballantyne, T. W. P. Livingstone, Herbert L. Chittenden, Fred J. Fisher, William T. Barbour, Wesson Seyburn, known to me to be the persons named in and who executed the foregoing instrument, and severally acknowledged that they executed the same freely and for the intents and purposes therein mentioned.

ELLA K. WINTER,

Notary Public, Wayne County, Michigan.

My commission expires Dec. 12, 1932.

Received Jan. 8, 1930, Department of State. Filed Jan. 8, 1930.

Certified Copy filed in Office of Wayne County Clerk Jan. 9, 1930. F. J. Gagnian, Deputy Clerk.

This is to certify these articles of association to be a true copy of the original on file in this office. John S. Haggerty, Secretary of State.

Filed Jan. 9, 1930. Thos. F. Farrell, Clerk.

Corporation Division, Jan. 8, 1930, compared by R. W. and J. D.

COMMITTEE EXHIBIT No. 2, JANUARY 24, 1934.

THIS AGREEMENT AND DECLARATION OF TRUST made this tenth day of October, A.D., 1929, by and between JULIUS H. HAASS, JOHN R. BODDE, EMORY W. CLARK, D. DWIGHT DOUGLAS, RALPH STONE, McPHERSON BROWNING, JOHN BALLANTYNE, T. W. P. LIVINGSTONE, HERBERT L. CHITTENDEN, FRED J. FISHER, WILLIAM T. BARBOUR and WESSON SEYBURN—

W I T N E S S E T H :—

THAT WHEREAS, all of the Trustee shares of the capital stock of Detroit Bankers Company, a corporation organized or about to be organized under the laws of the State of Michigan and having its principal place of business at Detroit, Michigan, have been or are about to be issued to and the certificates therefor issued in the names of the parties making this Agreement and Declaration as Trustees under and pursuant to this Agreement and Declaration, the purpose of which issuance is that the said parties making this Agreement and Declaration shall hold the legal title to the said Trustee shares of stock for the use and benefit of the holders from time to time of the shares of Common Stock of said Detroit Bankers Company and shall have the right and power to vote and control the said shares of stock.

NOW, THEREFORE, the said parties hereto do by these presents agree each with the others and each of them and make known, admit and declare that the said Trustees shares of stock of said Detroit Bankers Company is issued to each of them or which may hereafter be issued to any of them are so issued to them and that they now hold and will continue to hold the said Trustee shares of stock in trust only for the use and benefit of the holders from time to time of the shares of Common stock of said Detroit Bankers Company and their successors, representatives and assigns, and that this said Agreement and Declaration embodies the terms, conditions and provisions following, namely:—

I

The parties hereinbefore named do hereby declare and constitute themselves Trustees hereunder and are hereinafter designated "Trustees." An executed counterpart hereof together with each certificate of stock endorsed in blank shall be deposited with and at all times kept by Detroit and Security Trust Company and its successors which is hereby constituted and appointed Depository hereunder and agent of each party to transfer the stock so deposited upon the happening of any of the contingencies specified in Paragraph IV hereof.

II

A certificate for ten (10) shares of the class of capital stock known as "trustee Shares" of Detroit Bankers Company shall be issued in the name of each of the parties hereto respectively with the following words added immediately after his name:

"Trustee under Agreement and Declaration of Trust covering all authorized shares of said Trustee Stock executed October 10th, 1929 of which an executed counterpart is on deposit with Detroit and Security Trust Company as Depository thereunder, which shares are transferable only to a successor Trustee appointed as in said Agreement and Declaration specified."

Each party shall pay for said shares with his own funds the price thereof specified in the Articles of Association of said Detroit Bankers Company and shall be entitled to receive back said sum on redemption of said stock as provided in the Articles of Association of said Detroit Bankers Company or transfer thereof as in Paragraph "IV" hereof provided.

III

The principal trust upon which and purpose for which said Trustee shares are created and issued is that so long as the same shall be outstanding the

same shall be voted at all elections of directors for a person or persons who at the time of such election shall be the holder of a certificate for ten (10) shares of said Trustee Stock issued in manner and form as provided in Paragraph "11" hereof and each of the parties hereto agrees to vote accordingly the said shares at each and every such time held by him. Each Trustee shall have full right to vote for himself for Director.

IV

In the event of the death, resignation or inability to act or removal of any of the parties hereto or of any successor appointed as herein provided the vacancy in the Trustees hereunder thereby caused shall be filled on nomination by the President of Detroit Bankers Company by and with the approval of a majority of the then remaining Trustees hereunder. Except upon the unanimous approval of all the then remaining Trustees such nomination shall be made from among the then surviving persons who were the depositors prior to incorporation of said Detroit Bankers Company for exchange for shares of Common Stock thereof of shares of the capital stock of the same Bank or Trust Company as the party who is to be succeeded by such nominee. For the purpose of this paragraph the several Trustees shall be deemed to have been selected from the following institutions respectively, namely:

Peoples Wayne County Bank
 Julius H. Haass
 John P. Bodde
 Fred J. Fisher
 William T. Barbour
 Wesson Seyburn
 First National Bank in Detroit
 Emory W. Clark
 D. Dwight Douglas
 Detroit and Security Trust Company
 Ralph Stone
 McPherson Browning
 Bank of Michigan
 John Ballantyne
 T. W. P. Livingstone
 Peninsular State Bank
 Herbert L. Chittenden

the spirit of the foregoing being to perpetuate a proportionate representation of each of the foregoing institutions or their successors during the period of the trust. Upon approval of a nomination as aforesaid the person so approved shall become a party hereto by signing on the counterpart hereof in the possession of the Depositary hereunder or signing an independent writing making appropriate reference hereto and having the effect of making such person a party hereto and delivering such writing to the Depositary hereunder. The deposited Trustee shares of the person who shall have so then vacated said trusteeship shall then be surrendered to the Company on payment by said successor therefor of the issuance price thereof specified in the Articles of Association of said Detroit Bankers Company and a new certificate shall then be issued in the name of such successor with the same addition thereto as provided in Paragraph "11" hereof. Thereupon such successor shall without any other or further act by any party become and be successor Trustee hereunder with like force and effect from that time as though an original party hereto.

V.

Any Trustee may be removed at any time at a meeting of the Trustees called for that purpose. At least five days' notice in writing of such meeting shall be given to each Trustee including the one whose removal is to be acted upon. The Notice shall specify clearly the purpose of the meeting. Such removal shall be effected only by resolution adopted at such meeting or an adjournment thereof by the vote of at least five-sixths of the whole number of Trustees. It shall not be necessary for such notice and resolution to assign any cause or reason for such removal but it shall be sufficient that such is the will of the Trustees as evidenced by their vote on such resolution. The vote on such resolution shall be in person and not by proxy.

VI

The President of Detroit Bankers Company shall be Chairman of the Trustees. The Trustees may select and remove from time to time a Secretary (Who may but need not be a Trustee) of the Trustees. The Trustees may from time to time adopt and change such by-laws and regulations not inconsistent herewith for the procedure and government of the Trustees as the Trustees may deem proper.

VII

The full legal title to all shares of said Trustee Stock represented by each certificate therefor shall be vested in the person in whose name said certificate shall have been issued as Trustee as aforesaid and such person shall have full right to exercise all rights, powers and privileges of absolute owner of such shares subject only to the trusts herein agreed and declared. No holder of Common Stock of said Detroit Bankers Company shall have any title or interest in said Trustee shares but shall have only the equitable right to have the trust herein agreed and declared and each and every of the terms, conditions and provisions hereof executed and performed according to the intent and meaning hereof. The acceptance of the position of Trustee by any person now or hereafter shall be deemed conclusively an obligation on his part to perform and carry out the provisions hereof.

This Agreement and Declaration of Trust shall continue in full force and effect so long as said Trustee shares shall continue to be outstanding and shall not be modified or changed in any particular other than by the unanimous agreement of all the parties hereto and their successors respectively.

IN WITNESS WHEREOF the parties have hereunto set their hands and seals the day and year first above written.

IN THE PRESENCE OF:

STATE OF MICHIGAN,

County of Wayne, ss:

On this — day of — A.D. 1929, before me, a Notary Public in and for said County, personally appeared

Julius H. Haass
John R. Bodde
Emory W. Clark
D. Dwight Douglas
Ralph Stone
McPherson Browning

John Ballantyne
T. W. P. Livingstone
Herbert L. Chittenden
Fred J. Fisher
William T. Barbour
Wesson Seyburn

known to me to be the persons named in and who executed the foregoing instrument, and severally acknowledged that they executed the same freely and for the intents and purposes therein mentioned.

Notary Public, Wayne County, Michigan.

My Commission expires ———.

COMMITTEE EXHIBIT No. 4. JANUARY 24. 1934.

(This exhibit consists of a copy of certificate of trustees' shares, Detroit Bankers' Co., and is not printed.)

COMMITTEE EXHIBIT No. 5. JANUARY 24. 1934

(This exhibit consists of a copy of certificate of common stock, Detroit Bankers' Co., and is not printed.)

STOCK EXCHANGE PRACTICES

THURSDAY, JANUARY 25, 1934

UNITED STATES SENATE.
SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY.
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to adjournment on yesterday, in room no. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Adams, Townsend, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; Thomas G. Long, attorney for witnesses summoned in connection with Detroit Bankers Co.; Clifford B. Longley, attorney for John Ballantyne.

Senator COUZENS (presiding). I desire to make an announcement. Chairman Fletcher is in conference with the members of the House Banking and Currency Committee this morning and requested me to call the meeting to order and go on with the hearings until he can get here.

The subcommittee will now come to order. Mr. Pecora, you may proceed.

Mr. PECORA. Mr. Chairman, I will ask Mr. Verhelle to take the stand. But you may remain where you are, Mr. Ballantyne.

Mr. BALLANTYNE. All right.

TESTIMONY OF JOSEPH F. VERHELLE, GROSSE POINTE, MICH.— Resumed

Mr. PECORA. Mr. Verhelle, at the conclusion of the hearing yesterday afternoon you and Mr. Ballantyne were being questioned with regard to the disposition that was made of the special cash dividend one one and one-half million dollars that was declared by the First National Bank in Detroit on December 23, 1931. Do you recall that, Mr. Verhelle?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You undertook, when left the stand yesterday afternoon, to acquaint yourself with the details of the disposition of that fund. Have you done so?

Mr. VERHELLE. I tried as well as I could, by a long-distance call. And, incidentally, Mr. Pecora, I should like a little information as

to who will cover the expense in regard to any action taken to secure data upon which to answer such questions.

Mr. PECORA. Suppose you answer the question propounded to you, and we will take up later the other matter. That has nothing to do with this record.

Mr. VERHELLE. Well, I was not able to obtain——

Senator COUZENS (interposing). I did not quite get that request made by the witness. Will you please repeat it?

Mr. VERHELLE. I should like to know how far I can go in obtaining information of that kind, because it is quite difficult to get it, and there are, apparently, many factors involved, and in connection with this particular question I did not quite get the information.

Mr. PECORA. Do I understand that it was necessary for you to telephone to Detroit, and what else?

Mr. VERHELLE. It was necessary for me to do that; yes.

Mr. PECORA. You may proceed with the information you have at hand, and we will decide the other matter later.

Mr. VERHELLE. The only information I have at hand is that at one time, toward the latter part of December, there was specifically a total of 3½ million dollars in the hands of the Detroit Bankers Co., either in the form of certificates of deposit, or certificates of deposit and other instruments, or other instruments: that those 3½ million dollars consisted of a 1½-million-dollar dividend declared by the First National Bank, a 2-million-dollar liquidating dividend declared by the First Detroit Co.: that the First National Bank dividend was paid prior to the payment of that First Detroit Co. dividend, and that at the very end of the year both had been paid. In other words, both were paid prior to January 1, 1932. Now, that is——

Mr. PECORA (interposing). Well, the special dividend of 1½ million dollars was declared on December 22, 1931, and was paid the following day, December 23. And what you call the special liquidating dividend of \$2,000,000 paid by the First Detroit Co., was paid on December 28, 1931. Incidentally, that special liquidating dividend was not a special liquidating dividend of \$2,000,000, as you undoubtedly know, Mr. Verhelle.

Mr. VERHELLE. No; I do not.

Mr. PECORA. It was the proceeds from a special dividend of 30,000 shares of the capital stock of the First Detroit Co.

Mr. VERHELLE. Well, that is what I meant.

Mr. PECORA. And 20,000 of which shares were a few days thereafter surrendered for cancellation, and that was how the \$2,000,000 was paid to the Detroit Bankers Co. You know that, don't you?

Mr. VERHELLE. Yes: it reduced the invested capital from substantially \$4,000,000 to \$2,000,000.

Mr. PECORA. Well, will you please refer to this matter on the basis of the facts and not as a special liquidating dividend of \$2,000,000, which you know it was not.

Mr. VERHELLE. Well, I am not quite certain what it was, then.

Mr. PECORA. You were the comptroller of the Detroit Bankers Co., weren't you?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And as such it was your business to keep track of these various things, wasn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And you are not certain about that so-called "special dividend" declared by the Detroit Trust Co.?

Mr. VERHELLE. The Detroit Trust Co. did not declare any dividend.

Mr. PECORA. As to the 30,000 shares?

Mr. VERHELLE. I am not certain of that.

Mr. PECORA. What is there about it as to which you are uncertain?

Mr. VERHELLE. The Detroit Trust Co. declared a \$4,000,000 stock dividend.

Mr. PECORA. And that dividend consisted of 30,000 shares of stock.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. There was not a liquidating dividend of \$2,000,000 declared in addition to that, was there?

Mr. VERHELLE. The First Detroit Co. did declare such a dividend: yes, sir.

Mr. PECORA. How and when?

Mr. VERHELLE. I believe on December 26. I am using that date because it was within a few days of that.

Mr. PECORA. Well, wasn't that on the occasion of the surrender of 20,000 shares of the capital stock of the First Detroit Co. by the Detroit Bankers Co.?

Mr. VERHELLE. There were two transactions there, sir. The Detroit Trust Co. declared a dividend consisting of the capital stock of the First Detroit Co.

Mr. PECORA. Yes.

Mr. VERHELLE. That was no. 1. Thereupon the First Detroit Co. stock was set up on the books of the Detroit Bankers Co. and became their property through the declaration of this dividend.

Mr. PECORA. It was set up on the books at what valuation?

Mr. VERHELLE. I do not recall. I presume it was somewhere in the neighborhood of \$4,000,000. Then this company was going to liquidate, and in order to proceed with that program they had to raise a certain amount of cash and liquidate some of their assets, and they turned over to the Detroit Bankers Co. the sum of \$2,000,000, which resulted in a reduction of their invested capital again from, roughly speaking, \$4,000,000 down to approximately half of that sum.

Mr. PECORA. They turned over that \$2,000,000 on the occasion of the surrender of 20,000 shares of the capital stock of the First Detroit Co. by the Detroit Bankers Co., didn't they?

Mr. VERHELLE. I presume so; yes.

Mr. PECORA. Now, it is that \$2,000,000 that you have referred to as a special liquidating dividend?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That put the Detroit Bankers Co., in the month of December 1931, in possession of \$3,500,000?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That it got in the form of these dividends we have discussed. Now, what did the Detroit Bankers Co. do after that?

Mr. VERHELLE. They used \$750,000 of that money in connection with the First National Bank of Pontiac. That left \$2,750,000, which

was used entirely in the liquidation of the indebtedness of the First National Co.

Mr. PECORA. And the remaining \$2,750,000 was used for what purpose by the Detroit Bankers Co.?

Mr. VERHELLE. In the liquidation of this indebtedness that we discussed at great length here on yesterday. This \$2,750,000 was—

Mr. PECORA (interposing). You referred to that as a liquidation of the indebtedness of the First National Co.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. How did the Detroit Bankers Co. use it for that purpose? What did the Detroit Bankers Co. actually do with that \$2,750,000?

Mr. VERHELLE. Do you mean the actual procedure?

Mr. PECORA. Yes.

Mr. VERHELLE. They took \$2,000,000 of this money, my recollection is, and applied it on a note at the Guaranty Trust Co., was it?

Mr. PECORA. You mean the Chase National Bank, don't you?

Mr. VERHELLE. I presume I do, then.

Mr. PECORA. It took \$2,000,000 of that \$2,750,000 and turned it over to the Chase National Bank in reduction of a loan which the Chase National Bank had theretofore made, not to the First National Co., but to the Detroit Bankers Co.

Mr. VERHELLE. Who in turn had made a loan to the First National Co.

Mr. PECORA. But that \$2,000,000 was used to liquidate to that amount a loan which the Detroit Bankers Co. had obtained from the Chase National Bank.

Mr. VERHELLE. That is correct.

Mr. PECORA. All right. Now, what was done with the other \$750,000?

Mr. VERHELLE. Well, it was used in a similar way. But as to dates and amounts and the banks, I do not know as to which they were or what the dates were. But it was used in identically the same way as the \$2,000,000.

Mr. PECORA. That is, it was used to reduce an existing indebtedness of the Detroit Bankers Co., wasn't it?

Mr. VERHELLE. Yes; and it was action taken to offset indebtedness created by the First National Co.

Mr. PECORA. And that is what you mean by saying this money was used to liquidate the indebtedness of the First National Co.?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. The fact is that it was used to reduce an indebtedness of the Detroit Bankers Co. directly, wasn't it?

Mr. VERHELLE. And also to reduce an indebtedness of the First National Co.

Mr. PECORA. You say it was used in that way. How was the indebtedness of the First National Co. reduced thereby?

Mr. VERHELLE. Because the First National Co. had originally made this indebtedness. The Detroit Bankers Co. had assumed it in order to reduce the interest rate, and so forth, so that it was in reality the First National Co.'s debt that was originally involved. And the First National Co. still had indebtedness on its books, which, incidentally, was also reduced at the same time that this in-

debtedness was reduced. There was another resolution passed reducing the indebtedness of the First National Co. to the Detroit Bankers Co. at that time.

Mr. PECORA. Mr. Verhelle, are you familiar with the substance of a resolution adopted by the board of directors of the Detroit Bankers Co. at a meeting of that board held on December 18, 1931, referring to the indebtedness of the Detroit Bankers Co. of \$4,000,000 in favor of the Chase National Bank of New York?

Mr. VERHELLE. No, sir.

Mr. PECORA. Well, let me read it to you.

Mr. VERHELLE. Well, I would then probably recall it.

Mr. PECORA. Let me read the resolution as it appears from a photostatic copy which I have of the minutes of that meeting of the board of directors:

Loan authorized: In order to supply funds for the purpose of liquidating an obligation of the company—

And that means the Detroit Bankers Co.

in the amount of \$4,000,000 maturing at the Chase National Bank of New York on December 29, 1931, the two following resolutions were presented and unanimously adopted:

1. *Resolved*, That the president and treasurer of this company be, and they are hereby, authorized to borrow in behalf of this company the sum of \$2,000,000 from the Continental Illinois Bank & Trust Co., for such period and at such rate of interest and upon such terms and conditions as may be agreed upon between the said bank and the above-named officers of this company; and be it further

Resolved, That said officers of this company be, and they are hereby, authorized and directed in order to evidence the amount of such loan, and the terms and conditions thereof, to make, execute, and deliver in behalf of this company and in its corporate name the promissory note or notes of this company;

2. Whereas this corporation is the owner of all the outstanding stock of the First Detroit Co., with the exception of certain shares issued to directors in order to qualify them, and it is considered advisable and for the best interests of this company that a partial liquidation of the affairs of the First Detroit Co. be accomplished.

Now, therefore, it is resolved as follows:

1. That the board of directors of the First Detroit Co. be requested to declare and distribute a liquidating dividend to stockholders of the company in the amount of \$2,000,000, either in cash or securities as may be found desirable at the time of declaration of such dividend; and

2. That the president of this corporation be and he is authorized and directed in behalf of the corporation to execute and deliver to the First Detroit Co. the formal consent of this company as a stockholder to the declaration and distribution of such dividend, in accordance with the provisions of section 23 of act 327 of the Public Acts of Michigan for 1931; and

3. That upon the payment of such liquidating dividend the capital stock of the First Detroit Co. now held by this company, of the value of \$2,000,000, be delivered up for cancellation to the First Detroit Co., and the president of this corporation be and he is given full power and authority to make such delivery and to take any and all further proceedings in connection with the foregoing as may appear necessary or advisable to him.

Now, does the reading of those two resolutions refresh your recollection concerning the process by which the Detroit Bankers Co. paid this indebtedness of \$4,000,000 to the Chase National Bank?

Mr. VERHELLE. Well, sir, that is absolutely the way I have indicated it, that is, that a \$2,000,000 liquidating dividend was received from the First Detroit Co. as indicated in that resolution, and apparently was applied to the First National Bank; and additional borrowings of \$2,000,000 were obtained from other institutions, and

the total result was \$4,000,000, which was then applied to the Chase National Bank loan, resulting in a reduction in that indebtedness to \$2,000,000.

Mr. PECORA. And resulting in the wiping out of the indebtedness of \$4,000,000 owed by the Detroit Bankers Co. to the Chase National Bank, wasn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. In other words, the \$2,000,000 which the Detroit Bankers Co. paid to the Chase National Bank was the \$2,000,000 that it obtained upon the surrender for cancelation of 20,000 shares of the capital stock of the First Detroit Co.?

Mr. VERHELLE. That was a part of the \$3,500,000 which the Detroit Bankers Co. had.

Mr. PECORA. But that was the \$2,000,000 it got in connection with that particular transaction, wasn't it?

Mr. VERHELLE. I don't know that, sir.

Mr. PECORA. Doesn't this resolution make that clear to you?

Mr. VERHELLE. No, sir.

Mr. PECORA. Doesn't this resolution inform you very specifically and definitely that that \$2,000,000 obtained by the Detroit Bankers Co. upon the surrender of those shares of the capital stock of the First Detroit Co. was to be turned over to the Chase National Bank?

Mr. VERHELLE. I would have to read that very carefully. May I borrow it from you for a second?

Mr. PECORA. Yes; and you may read it as carefully as you want to, Mr. Verhelle. I now hand it over to you.

Mr. VERHELLE. That was what I have been trying to figure out for quite a while. [Witness looks over the photostatic copy of minutes for a time, and then hands the same back to Mr. Pecora.] Yes; that does refresh my memory.

Mr. PECORA. To what extent?

Mr. VERHELLE. To the extent that that \$2,000,000 was, according to that resolution, obtained for the purpose of liquidating a part of the \$4,000,000 indebtedness to the Chase National Bank.

Mr. PECORA. Which was owed by the Detroit Bankers Co.?

Mr. VERHELLE. At that time; yes, sir.

Senator COUZENS. So, in fact, this 1½-million-dollar dividend that you got from the First National Bank in Detroit was not used for the purpose stated on yesterday?

Mr. VERHELLE. Oh, no, sir; it was not.

Mr. PECORA. Why, Senator Couzens, the \$2,000,000 the witness spoke of in his last answer was the \$2,000,000 which was obtained through the surrender of 20,000 shares of the capital stock of the First Detroit Co.

Senator COUZENS. I understand that, but I understood on yesterday that this 1½-million-dollar dividend from the First National Bank in Detroit was used for that purpose in part. But it may be I misunderstood the answer, and you may go ahead for I think it is unimportant.

Mr. VERHELLE. It may not be important, but——

Mr. PECORA (interposing). Senator Couzens, we have definitely allocated \$2,000,000 which the Detroit Bankers Co. got in the form of this special dividend. Isn't that so, Mr. Verhelle?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And that \$2,000,000 was used to pay back a part of the loan that it owed to the Chase National Bank?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That brings us down to the special cash dividend of 1½ million dollars which the Detroit Bankers Co. obtained from the First National Bank in Detroit on December 23, 1931. Now, Mr. Verhelle, what was done with that 1½ million dollars?

Mr. VERHELLE. There was \$750,000 used—

Senator COUZENS (interposing). No; prior to the use of the \$750,000 for the First National Bank of Pontiac, what was done with it?

Mr. VERHELLE. Certificates of deposit—

Mr. PECORA (interposing). How many?

Mr. VERHELLE. Two.

Mr. PECORA. And for what amounts, respectively?

Mr. VERHELLE. One was for \$1,000,000, and the other was for \$500,000. I believe the \$1,000,000 was the Detroit Trust Co. and the \$500,000 was the First National Bank—certificates of deposit were taken out.

Mr. PECORA. Yes.

Mr. VERHELLE. And the money was left on deposit there.

Senator COUZENS. Was that augmenting the deposits of the two institutions?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, that means that—

Mr. VERHELLE. No, sir; not necessarily. Well, let me see. [Witness appears to be considering the matter for about a minute.] Pardon me, but I would like to think that question over. [After another pause.] Yes; it did.

Senator COUZENS. Well, even a layman understands that.

Mr. VERHELLE. All right.

Mr. PECORA. Those two certificates of deposit were purchased on December 24, 1931, were they not?

Mr. VERHELLE. Well, let me see—

Mr. PECORA (interposing). That was the day after the 1½-million-dollar cash dividend was received by the Detroit Bankers Co. from the First National Bank in Detroit.

Mr. VERHELLE. I would presume it was within a day of that time, anyway.

Mr. PECORA. Now, do you know what use was made of those funds by the Detroit Bankers Co., after the purchase of those two certificates of deposit?

Mr. VERHELLE. I cannot specifically allocate it, except as to \$750,000 of that, but its use was for the same identical purpose as the \$2,000,000. The other \$750,000 went to the bank at Pontiac.

Mr. PECORA. How could the use of the first \$750,000 thereof have been devoted to the same purpose as the \$2,000,000 that you have already spoken about, when that \$2,000,000 which was paid to the Chase National Bank, plus a further sum of \$2,000,000 that the Detroit Bankers Co. that same month borrowed from the Continental Illinois Trust Co. and turned over to the Chase National Bank,

went to liquidate entirely the indebtedness of the Detroit Bankers Co. to the Chase National Bank?

Mr. VERHELLE. Well, there were other banks to which the Detroit Bankers Co. was indebted, and it was for the same indebtedness rather than for the indebtedness that had already been liquidated, of course, or I mean for the same type of indebtedness, or indebtedness of the same character.

Mr. PECORA. Oh, the same type of indebtedness is one thing, and the same indebtedness means quite another thing, doesn't it?

Mr. VERHELLE. Well, of course, we wouldn't pay twice on the same indebtedness.

Mr. PECORA. I should say not. Well, you say it was paid for the same indebtedness, when that indebtedness had been completely liquidated through the payment of \$4,000,000 out of funds obtained in the manner I have indicated, by the Detroit Bankers Co. to the Chase National Bank. Now, you said that \$750,000 of this \$1,500,000 special cash dividend was used to pay off the same type of indebtedness. Whose indebtedness do you refer to that was paid off with that \$750,000, and when was it paid off?

Mr. VERHELLE. I am referring to the indebtedness created by the First National Co. and assumed by the Detroit Bankers Co. for the purpose of reducing the interest rate, and so forth, and which was at that time held by—well, there was the \$2,000,000 we have just seen held by the Continental Bank, and I don't know which bank received the benefit—or banks it might have been—received the benefits of that \$750,000.

Mr. PECORA. Now, on December 23, 1931, the First National Co. owed the First National Bank in Detroit the sum of \$1,564,000. Do you recall that?

Mr. VERHELLE. Not exactly that amount, but approximately that, yes.

Mr. PECORA. Well, it was approximately that?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That is, it was approximately \$1,500,000?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, that was about 1 week before the First National Bank in Detroit merged with the Peoples Wayne County Bank under the name of First Wayne National Bank, wasn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Do you recall, Mr. Verhelle, that it was in contemplation of that merger, which became effective on December 31, 1931, that it was desired by the First National Bank and the Peoples Wayne County Bank, that the First National Co. should liquidate its indebtedness of approximately one and a half million dollars which it owed to the First National Bank? Do you recall that?

Mr. VERHELLE (after a pause). Not that specific indebtedness, sir.

Mr. PECORA. Well, what indebtedness? Let me read to you for the purpose of possibly refreshing your recollection, the following resolution adopted by the board of directors of the First National Bank in Detroit, at a meeting which it held on December 22, 1931. I will read not only—well, I will read just the resolution in question, as it appears in the minute book of the meeting of the board of that date, a photostatic copy of which I have before me:

Whereas the net assets to be contributed by this bank on the consolidation thereof with the Peoples Wayne County Bank were fixed at \$12,654,968.61, by first setting up a reserve of \$1,500,000 out of the total net assets of this bank, to assist in the liquidation of the First National Bank in Detroit, Inc., which is affiliated with and largely indebted to this bank:

Resolved, That to carry out the purpose of said reserve and making said \$1,500,000, or substantially all thereof, available for liquidation of the indebtedness of said First National Bank, there is hereby declared payable to all shareholders of record of this bank at the close of business on the date hereof, said shareholders being also beneficial owners in the same proportion of all the capital stock of said First National Co., a dividend in the sum of \$1,500,000, provided said shareholders, or substantially all thereof, agree in advance, or in receipting for said dividend, to apply same, or substantially all thereof, in liquidation of the indebtedness of said First National Co., other than indebtedness thereof to any shareholder or beneficial owner of shares thereof.

Mr. VERHELLE. I recall that; yes.

Mr. PECORA. Does not this resolution inform you that the purpose of declaring this special cash dividend of a million and a half was to enable the First National Co. to liquidate an indebtedness which it then owed of approximately that sum to the First National Bank in Detroit?

Mr. VERHELLE. I do not know just what the purpose of that resolution was.

Mr. PECORA. Was the purpose of that resolution other than that set forth in the terms of the resolution itself?

Mr. VERHELLE. Other than would be indicated by the construction that has been placed on it here——

Mr. PECORA. I have not placed any construction upon it; I have merely read the terms of the resolution to you.

Mr. VERHELLE. With the construction that the money should be used to be applied to this sum of approximately a million and a half dollars' indebtedness to the First National Bank.

Mr. PECORA. Is that construction a strained construction of this resolution?

Mr. VERHELLE. It is not the purpose——

Mr. PECORA. Is it a strained construction of the language of this resolution?

Mr. VERHELLE. Possibly not.

Mr. PECORA. Possibly not. Well, then, if that construction is a fair and reasonable construction of the language of this resolution, do I understand you to mean that this resolution was adopted to effectuate a purpose other than that set forth by the resolution itself?

Mr. VERHELLE. There were other purposes to be served by that resolution.

Mr. PECORA. What were those other purposes?

Mr. VERHELLE. I can explain those other purposes, I believe. However, it is quite a legal question, and if I use the wrong terms I hope I may be pardoned. At that particular time there was outstanding stock of the First National Bank in the hands of others than the Detroit Bankers Co., a purely nominal number of shares. I do not recall how many or how few. The entire purpose of declaring this dividend, the underlying motive, was definitely to reduce the burden of indebtedness that had come to the Detroit Bankers Co. through the First National Co., and in order to do that and in order to permit this consolidation to go through——

Mr. PECORA. You mean, the consolidation with the Peoples Wayne County Bank?

Mr. VERHELLE. And the First National Bank—we were advised by counsel——

Senator COUZENS. What counsel?

Mr. VERHELLE. Monahan, Crowlev & Riley and Stevenson, Eamon, Butzel & Long—to declare this dividend in, I think, what they call a restricted manner, so as to be sure that all of the proceeds went toward this obligation which at that time had been incurred through the actions of this \$7,000,000 proposition that was discussed here yesterday, and so none of it would be diffused in other channels.

Mr. PECORA. Mr. Verhelle, do you know who drew up the resolution that I have read to you?

Mr. VERHELLE. I believe Mr. Long and Mr. Monahan did.

Mr. PECORA. Mr. Long is in the room at the present time, is he not?

Mr. VERHELLE. Yes.

Mr. PECORA. Mr. Long, will you be good enough to come forward and be sworn?

TESTIMONY OF THOMAS G. LONG, OF DETROIT, MICH.

Senator COUZENS. Mr. Long, you do solemnly swear that your testimony in this hearing will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LONG. I do.

Mr. PECORA. Give your full name and business or profession to the reporter for the record.

Mr. LONG. Thomas G. Long; 1436 Chicago Boulevard, Detroit; lawyer.

Mr. PECORA. Are you a member of any law firm having an office in the city of Detroit, Mich.?

Mr. LONG. I am.

Mr. PECORA. What is the name of that firm?

Mr. LONG. Stevenson, Butzel, Eaman & Long.

Mr. PECORA. How long have you been a member of that firm?

Mr. LONG. Since it was organized.

Mr. PECORA. Was that firm counsel to the First National Bank in Detroit at any time in the past?

Mr. LONG. They were.

Mr. PECORA. Were you counsel for that bank in the year 1931, and particularly during the month of December of that year?

Mr. LONG. We were.

Mr. PECORA. Did you hear the testimony given at the session this morning by the preceding witness, Mr. Verhelle?

Mr. LONG. The testimony that he has just given; yes.

Mr. PECORA. Did you hear his testimony particularly in connection with a resolution that appears to have been adopted by the board of directors of the First National Bank in Detroit at the meeting of said board held on December 22, 1931, which resolution was read to Mr. Verhelle by me?

Mr. LONG. Yes, sir.

Mr. PECORA. Are you familiar with the facts and circumstances regarding the drawing up, presentation and adoption of that resolution by the board of directors of the bank at this meeting?

Mr. LONG. I am.

Mr. PECORA. Will you tell the committee what you know about those facts and circumstances?

Mr. LONG. I drew the resolution. Mr. Peter Monaghan and myself worked on the matter of consolidation of the Peoples Wayne County Bank and the First National Bank. We worked the greater part of the month of December and some of the month of November, and in the course of it this resolution was drafted. I cannot tell what date it was drafted. It was drafted in advance of the meeting at which it was adopted.

Mr. PECORA. What purpose was sought to be effected by the adoption of this resolution?

Mr. LONG. Mr. Verhelle has mentioned a purpose. I cannot recall at this time everything that we then had before us, whether there was any requirement in connection with the consolidation that a resolution of that kind should be adopted. I do have an indistinct recollection of reading over the resolution and talking it over with either Mr. Leyburn or Mr. Hopkins, but just what the conversation was or why I talked to them, I do not know. They were working right there a good part of the time. At that time there were stockholders of the First National Bank that had declined to come into the Detroit Bankers Co.

Mr. PECORA. That is, declined to exchange their shares of the bank's stock for the shares of the Detroit Bankers Co. stock?

Mr. LONG. Yes; and at various times they had threatened to do this, that, or the other thing which would cause trouble and thereby force somebody to pay them a lot of money for their shares. We anticipated such trouble being injected into the consolidation of these two banks, and we were extra careful in drafting all our papers to prevent those people from getting any kind of a technical point that they could find; and in order to avoid any kind of sharpshooting we had that language in the resolution. This I do not know, as I say—I do not recall that I ever saw any statement in writing directly, myself, at any discussion with Mr. Leyburn or Mr. Hopkins or any other representatives of the Comptroller's Office as to what were the essential terms of that consolidation. So I do not know that there was involved in this resolution anything of that sort.

Mr. PECORA. Mr. Long, you have stated that you went over this resolution?

Mr. LONG. Yes, sir.

Mr. PECORA. You drafted it?

Mr. LONG. I did.

Mr. PECORA. Did you attend the meeting of the board of directors at which it was adopted?

Mr. LONG. I did.

Mr. PECORA. I presume that you drafted it after you had some conferences with officers and directors of the bank and discussed with them the situation that it was designed to meet by the adoption of this resolution. Is that a fair assumption?

Mr. LONG. The officers and directors of the bank? I do not think it could have been with any other than Mr. Ballantyne.

Mr. PECORA. As a result of the conferences you had with him or with any other officer or director whom you might have had any such

conferences with, what did you learn or what were you informed was the situation existing at that time to meet which you drafted this resolution for adoption by the board of directors?

Mr. LONG. Now you are asking me what I said before, that I do not have any distinct recollection about it. I was told that in the bringing about of this consolidation there was to be this million and a half dollar dividend; but I say, I do not recall any discussion of the whys or wherefores of it.

Mr. PECORA. Perhaps if you had the text of the resolution before you it might serve to refresh your recollection as to the situation then existing which you intended to have cured or met by means of the adoption of this resolution. So I will let you examine it.

Mr. LONG. I will read it, but it could not refresh my recollection, because I do not think I ever did know the situation.

Mr. PECORA. How could you draw a resolution designed to meet a situation without knowing what the situation was, Mr. Long? In other words, how could you as a doctor prescribe for a patient without knowing what the nature of the illness was? You would not undertake to do that, would you?

Mr. LONG. No; I am not a doctor.

Mr. PECORA. And you would not undertake to suggest a legal remedy for a situation the factors of which you were not familiar with?

Mr. LONG. That question was not before me.

Mr. PECORA. You were asked to write a resolution, were you not?

Mr. LONG. That is right.

Mr. PECORA. Which was to be introduced at a meeting of the board of directors of the bank for the purpose of adoption?

Mr. LONG. That is right.

Mr. PECORA. In order to write such a resolution intelligently you would have to know, I presume, what situation the resolution was intended to meet; is not that fair?

Mr. LONG. I would not necessarily have to know, and I do not recall that I did.

Mr. PECORA. You mean to say you would undertake as a lawyer to draw a resolution for adoption by the board of directors of the bank of which your firm was counsel, without knowing what the situation was that the resolution was designed to meet?

Mr. LONG. In every detail; yes.

Mr. PECORA. You would undertake to draw up such a resolution without knowing anything at all about the situation that the resolution was designed to meet?

Mr. LONG. Oh, no; I knew that the million and a half dollar dividend had to be declared in the course of the consolidation. Why and wherefore I did not know.

Mr. PECORA. You did not know?

Mr. LONG. I have no recollection of knowing.

Mr. PECORA. Did you know by whom it was to be paid?

Mr. LONG. By the First National Bank.

Mr. PECORA. And to whom it was to be paid?

Mr. LONG. It was a dividend that had to be paid to the stockholder.

Mr. PECORA. And that stockholder was the Detroit Bankers Co.?

Mr. LONG. Not entirely.

Mr. PECORA. It was, with the exception of a few shares, the sole stockholder?

Mr. LONG. Yes.

Mr. PECORA. Could you tell us the number of shares then outstanding of the First National Bank in Detroit which were not owned by the Detroit Bankers Co., outside of the directors' qualifying shares?

Mr. LONG. No; but it was very, very few.

Mr. PECORA. As many as a hundred shares?

Mr. LONG. Oh, no; I don't think it was a hundred shares.

Mr. PECORA. So that it was virtually regarded that the sole stockholder of the bank was the Detroit Bankers Co., with the exception of a few shares held by others that aggregated less than a hundred shares?

Mr. LONG. It was not dollars and cents that was bothering us.

Mr. PECORA. What is that?

Mr. LONG. It was not dollars and cents that was bothering us there, as to what they might get, but it was the possibility of technical sharpshooting.

Mr. PECORA. This resolution was not drawn for the purpose of warding off an attack by these so-called "sharpshooters" who held in the aggregate less than a hundred shares of stock of the bank?

Mr. LONG. That was distinctly one of the things in mind and the occasion for the very particular language in it.

Mr. PECORA. How did this resolution operate to protect the bank against those sharpshooters?

Mr. LONG. Because it is not absolutely an unqualified declaration of dividend.

Mr. PECORA. In what respect is the declaration of dividend qualified by the terms of the resolution?

Mr. LONG. Those who were to receive it had to agree, before it became effective, that they would permit its application in a certain way to the indebtedness mentioned.

Mr. PECORA. What was that certain way?

Mr. LONG. To apply the same or substantially all thereof in liquidation of indebtedness of said First National Company other than indebtedness thereof to any shareholder or beneficial holder of shares thereof.

Mr. PECORA. What shareholders were excluded by that clause, the last clause you read?

Mr. LONG. All the shares.

Mr. PECORA. That included the Detroit Bankers Co.?

Mr. LONG. Right.

Mr. PECORA. As a matter of fact, Mr. Long, do you recall that the total number of shares of the capital stock of the First National Bank in Detroit, other than directors' qualifying shares, not owned at that time by the Detroit Bankers Co., consisted of exactly one share?

Mr. LONG. If you say that is correct. There was a time when it was one. I don't know whether at that time it was one. Mr. Monaghan handled the matter of the outstanding stock more than I did. I knew it was one at the time the bank closed, but whether I knew at that time it was one, I don't know. If you say it was one, I knew it at that time.

Mr. PECORA. I am asking you if you recall that it was one.

Mr. LONG. No; I have no recollection on that subject.

Mr. PECORA. You have a recollection that at one time or other the only other stockholder was some individual that owned one share?

Mr. LONG. I do.

Mr. PECORA. And he was the sharpshooter that you had in mind, the owner of that one share?

Mr. LONG. If that is the only one, he was the only sharpshooter.

Mr. PECORA. And this resolution was intended to protect the bank against the attack of that sharpshooter?

Mr. LONG. Yes.

Mr. PECORA. And that attack was warded off, you felt, by the terms of this resolution, because under this resolution there was not an unqualified or unequivocal declaration of a special cash dividend?

Mr. LONG. That is right.

Mr. PECORA. It was a declaration coupled with or based upon a certain condition or limitation, and that limitation or condition involved only the use that was to be made of that special cash dividend by the Detroit Bankers Co. which received it?

Mr. LONG. Right.

Mr. PECORA. That limitation extended to what factor?

Mr. LONG. To what factor?

Mr. PECORA. What factor or situation was covered by that limitation?

Mr. LONG. It was worked by exclusion. It was not to be applied to any indebtedness to any shareholder or holders of beneficial interest in shares.

Mr. PECORA. Then under the terms of this special resolution no part of this special cash dividend was to be used to discharge any indebtedness owed by the First National Co. to the Detroit Bankers Co.; is not that so?

Mr. LONG. Just let me read this again. [After again reading the resolution referred to:] That is the way it reads.

Mr. PECORA. So that when Mr. Verhelle testified, as he did this morning, that a part of this \$1,500,000 special cash dividend was used and intended to be used—although the intention, he said, might not have been expressed in the resolution—to reduce or liquidate an indebtedness owed by the First National Co. which had been assumed, as he put it, by the Detroit Bankers Co., he was entirely mistaken, was he not?

Mr. LONG. Oh, I would not say that; I would not say that.

Mr. PECORA. Was this resolution drawn to effectuate a purpose other than that stated in the resolution itself?

Mr. LONG. The way you ask that question, yes.

Mr. PECORA. Was it drawn for a purpose other than that set forth in the resolution itself?

Mr. LONG. Yes; but whether or not exclusively—

Mr. PECORA. Why was the resolution drawn by you as an attorney for the bank to effectuate a purpose other than the purpose set forth in the resolution that you drew up?

Mr. LONG. We had to deal, or thought we had to deal, with this outstanding stockholder situation, because he was threatening to do

this; so that purpose had to be in mind. So, when you say "a purpose", that is a purpose that was in mind.

Mr. PECORA. How did the purpose set forth in the resolution give any protection to the First National Bank in Detroit or to the Detroit Bankers Co. as the recipient of the cash dividend provided for in the resolution against any attack by this sharp-shooting stockholder?

Mr. LONG. We were not trying to give the Detroit Bankers Co. any protection; and the resolution was conditioned upon this being applied in that way.

Mr. PECORA. In what way?

Mr. LONG. As it says at the end and as we have agreed it says—"other than indebtedness of the First National Co. to any shareholder or beneficial holder of shares thereof."

Mr. PECORA. In other words, the resolution was carefully drawn to provide for the liquidation of an indebtedness of the First National Co. at that time, other than any indebtedness that it owed to the Detroit Bankers Co. as a stockholder or shareholder of the First National Co.?

Mr. LONG. Surely; that is what it says.

Mr. PECORA. Is that what was done?

Mr. LONG. Afterwards.

Mr. PECORA. Was this cash dividend used in conformity with the purpose set forth in the resolution itself?

Mr. LONG. The only knowledge I have of that is that, when someone asked me within the last 2 or 3 weeks as to how it was divided, and I said I didn't know, and I have asked others since then and gotten substantially the information that Mr. Verhelle has given this morning; and that is all I know about it.

Mr. PECORA. Mr. Verhelle has gone further than that and has said that this resolution was specifically drawn in that form and it was done for a purpose other than that set forth in the resolution itself. Can you confirm his testimony to that extent of your own knowledge?

Mr. LONG. Your question only asks half of what you intend. It did have this purpose, which is not expressed. Now, whether it was also an essential part of the purpose which it does express, as I say. I don't personally have any recollection. I don't know whether I ever did know, other than that I was to get up a million and a half dollar dividend resolution. If someone were to tell me that in the discussion with Mr. Leyburn and Mr. Hopkins this certain thing was to be accomplished, that is all right—

Mr. PECORA. Do you mean to say that in drawing up that resolution you did so after a conference or discussion you had with the national bank examiner in the person of either Mr. Leyburn or Mr. Hopkins?

Mr. LONG. No; I don't know.

Mr. PECORA. You mean, you don't know or you don't recall?

Mr. LONG. I don't recall—if there is any difference. But I do say that if Mr. Leyburn or Mr. Hopkins says I did, I would accept their word.

Mr. PECORA. If they say you did what?

Mr. LONG. Had a discussion with them about it.

Mr. PECORA. They have not said any such thing.

Mr. LONG. I don't know about that.

Mr. PECORA. Do you recall any conference or discussion with either Mr. Leyburn or Mr. Hopkins or any other person who then was a national bank examiner that caused you to draw that resolution in the form in which it appears?

Mr. LONG. That is what I am saying, that I don't recall. When I say I don't recall I am not saying that I did not have such a discussion. I mean exactly that I have no recollection one way or the other.

Mr. PECORA. Let me see if I can refresh your recollection concerning the purposes for which this resolution was drawn and what was done with the money received by the Detroit Bankers Co. in the form of a special dividend declared in pursuance of that resolution; and to refresh your recollection about this whole matter I will read to you a resolution adopted by the board of directors of the Detroit Bankers Co. at a meeting of the board held on January 8, 1932. In the minutes of that meeting the resolution in question appears under the caption "Investment of Funds", and I will read the entry in the minutes relating to this resolution under that caption [reading]:

The following resolution with respect to a temporary investment of the proceeds of a special dividend received from the First National Bank amounting to \$1,500,000 was presented and adopted:

Whereas, incident to the consolidation of the Peoples Wayne County Bank and the First National Bank, the latter institution out of a reserve set aside for that purpose declared a dividend to its stockholders in the amount of \$1,500,000, with the understanding that said amount would be used in assisting in the liquidation of the First National Co. of Detroit, Inc., as will appear by reference to the records of the bank;

And whereas, substantially all of said dividend was received by this company, and pending the application of the amount for the purpose mentioned in the resolution declaring said dividend, the officers of this corporation temporarily deposited the sum of \$1,000,000 in the Detroit Trust Co. and the sum of \$500,000 in the Peoples Wayne County Bank and received therefor certificates of deposit in the usual form: Now therefore be it

Resolved that the action of the officers in making said deposit and receiving said certificates of deposit be and the same is hereby approved.

Does the adoption of that resolution refresh your recollection in any way concerning this special dividend?

Mr. LONG. No; I don't think I knew anything of that resolution except that I saw it within the last 2 or 3 weeks, a copy of it.

Mr. PECORA. Now, according to the minutes of the meeting, you were present at this meeting of the board of directors of the Detroit Bankers Co. at which this resolution was adopted. Not only were you present, but Mr. Peter Monaghan, who I assume is one of the law partners, was also present—

Mr. LONG. No; that is another firm. That was the firm that was counsel for the Detroit Bankers Co.

Mr. PECORA. Among those present, according to the minutes of that meeting, were, in addition to certain named directors, Mark Wilson, vice president, and Thomas E. Long and Peter J. Monahan, attorneys.

At the time of the adoption of this resolution at this meeting of the board of directors of the Detroit Bankers Co. did any discussion precede the adoption of this resolution which I have read to you?

Mr. LONG. I don't have any recollection of being at that meeting or what I was doing there, if I was there.

Mr. PECORA. Mr. Verhelle has testified here this morning—were you going to say something?

Mr. LONG. I was going to say that it might refresh my recollection if I saw all the minutes passed at that meeting.

Mr. PECORA. I will be very glad to let you read the entire minutes of that meeting [handing a document to the witness].

Mr. LONG (after reading same). That refreshes my recollection about the meeting.

Mr. PECORA. You say it does not?

Mr. LONG. It does. I was there for the purpose of the first resolution about the First National Co. and the Detroit Co. I left after that.

Mr. PECORA. Mr. Long, do you recall that in connection with the contemplated consolidation or the proposed consolidation of the First National Bank in Detroit with the Peoples Wayne County Bank, it was desired to have an existing indebtedness which the First National Co. then owed to the First National Bank in Detroit, amounting to approximately a million and a half dollars, liquidated?

Mr. LONG. When I first sat in this chair I told you I had no recollection at all in my mind about the thing other than as the record has shown.

Mr. PECORA. Does not the resolution that you drew up in connection with this special dividend indicate to you distinctly that it was desired at that time, in connection with the prospective consolidation of the two banks, to have the First National Co. liquidate its indebtedness to the First National Bank?

Mr. LONG. That is what the resolution says.

Mr. PECORA. And in order to enable the First National Co. to liquidate that indebtedness it had to get the funds from some source or other, did it not?

Mr. LONG. Certainly.

Mr. PECORA. It had no funds of its own at that time with which to pay off this indebtedness, did it?

Mr. LONG. I do not think so.

Mr. PECORA. Was it not intended to supply the First National Co. with the necessary funds to enable it to liquidate its indebtedness in favor of the First National Bank, to have the First National Bank declare this special cash dividend of a million and a half dollars and pay it over to the Detroit Bankers Co., and then have the Detroit Bankers Co. loan that money or make it otherwise available to the First National Co., so that the First National Co. would pay it back to the First National Bank in liquidation of its indebtedness? Was not that the scheme in mind?

Mr. LONG. All I can testify is what the resolution says. I have no independent recollection of that particular thing.

Mr. PECORA. You have no recollection that the scheme was the one which I described in my last question to you?

Mr. LONG. I have no independent recollection whatever. I drafted that resolution in a certain way, and I assume I had a reason for it.

Mr. PECORA. But you do not recall the reason?

Mr. LONG. I do not. I was drafting a lot of papers at that time.

Mr. PECORA. And the drafting of this resolution and a study of it by you, however patiently you want to study it, would not serve to refresh your recollection any more than you have admitted here?

Mr. LONG. When you say "study"—I think if I could get Mr. Verhelle, Mr. Wilson, Mr. Leyburn, and Mr. Hopkins in the room I might be able to refresh the recollection that I once had.

Mr. PECORA. It would require that?

Mr. LONG. It certainly would.

Mr. PECORA. Did the Detroit Bankers Co., to your knowledge, when it received this cash dividend, agree to the condition expressed in the resolution concerning what was to be done?

Mr. LONG. I have not looked it up, but I think there is a resolution of the Detroit Bankers Co. to that effect.

Senator COUZENS. They could not have got the money otherwise, according to the resolution, could they?

Mr. LONG. I would not have thought so.

Mr. PECORA. Would you say that, under the terms of this resolution which you drafted and which was adopted by the board of the First National Bank in Detroit, the Detroit Bankers Co., as the recipient of the special cash dividend referred to in that resolution, had the right to use any part of that cash dividend for any purpose that included the extinguishment of any liability which the First National Co. owed to the Detroit Bankers Co. at that time?

Mr. LONG. No. The resolution says not.

Mr. PECORA. Is there anything more you can tell this committee about this transaction involving the declaration of this special cash dividend, Mr. Long?

Mr. LONG. No; I think I have told you all that I have in my mind.

Mr. PECORA. You feel that you have exhausted your full present recollection of the transaction and all the circumstances surrounding it?

Mr. LONG. Yes.

Mr. PECORA. Thank you very much.

(Witness excused.)

Mr. PECORA. Now, Mr. Verhelle, will you resume the stand?

TESTIMONY OF JOSEPH F. VERHELLE—Resumed

Mr. PECORA. Mr. Verhelle, in so far as you have indicated the fact by the testimony which you have heretofore given, the \$7,000,000 indebtedness which the Detroit Bankers Co. assumed in February 1930, or a month following its birth, had been reduced by payments to the sum of \$5,000,000 by the end of 1931, had it not?

Mr. VERHELLE. That sounds a little high, to me, sir.

Mr. PECORA. What is high—the \$5,000,000?

Mr. VERHELLE. The \$5,000,000 sounds a little higher than I recall it.

Mr. PECORA. To what amount had it been reduced by the end of that year, according to your recollection?

Mr. VERHELLE. This is purely a guess, but I would say \$3,000,000. It is purely a guess, however.

Mr. PECORA. When did you leave the employ of the Detroit Bankers Co.?

Mr. VERHELLE. November of 1932.

Mr. PECORA. That was about 3 or 4 months before the company went into receivership. Do you know how much of that original \$7,000,000 indebtedness had been paid by the Detroit Bankers Co. up to the time that you left its employ in November 1932?

Mr. VERHELLE. I am afraid I do not, sir.

Mr. PECORA. Do you recall that that original \$7,000,000 indebtedness had been reduced, up to the time the Detroit Bankers Co. went into receivership, to the sum of \$3,800,000?

Mr. VERHELLE. I do not know that, but I presume the records show that.

Senator COUZENS. Where did you go when you left the Detroit Bankers Co.?

Mr. VERHELLE. Not any place in particular, sir. I went in various capacities and assisted various institutions. I had employment with—really, the very first definite position, I would say, would have been the—I will have to look it up. [After examining papers:] H. P. Earhart, Inc., I believe the name was, sir, and simultaneously with that I assisted in connection with a few institutions, more or less as a personal favor to the officers, helping them.

Senator COUZENS. Why did you leave the Detroit Bankers Co.?

Mr. VERHELLE. I resigned from the Detroit Bankers Co., originally gave Mr. Ballantyne my resignation, in line with this consolidation.

Senator COUZENS. I do not hear you.

Mr. VERHELLE. Mr. Ballantyne had my resignation at the time of the consolidation we have been discussing here sometime ago, or this morning—December 31, 1931. At the time Mr. Ballantyne and Mr. Wilson left the Detroit Bankers Co., I was called in by certain directors, Messrs. McMillan, Webber, Mills, and one other I have forgotten, and I was asked to remain and continue in connection with the operations of that company; that it was intended to change the activities of the Detroit Bankers Co. While there was no definite understanding, or no words had been actually passed between us to that effect, it was, I believe, mutually understood that it was a case of allocating these functions or this work to such others as to whom the work would be assigned. The reallocation of this work commenced approximately in May 1932 and continued on until I left.

Senator COUZENS. It was May 1932 that Mr. Ballantyne retired, was it?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. Was that the time you put in your resignation?

Mr. VERHELLE. No, sir. Before there was an opportunity to do that, I had been called in by these directors.

Senator COUZENS. What date was it you put in your resignation?

Mr. VERHELLE. The last time, when I actually left there, sir? I put in another resignation at that time. That was in—

Senator COUZENS. No; but the first time?

Mr. VERHELLE. I would say it was about October of 1931.

Senator COUZENS. Why did you put it in then?

Mr. VERHELLE. To be certain that Mr. Ballantyne had an absolutely free hand in connection with this consolidation, sir.

Senator COUZENS. Had he indicated to you that he wanted a free hand?

Mr. VERHELLE. No, sir.

Senator COUZENS. Then that resignation was not accepted, and you put in another one?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. Was that in May 1932?

Mr. VERHELLE. No, sir.

Senator COUZENS. When was that?

Mr. VERHELLE. I am not quite clear whether it was October or November 1932.

Senator COUZENS. Then, shortly after your resignation——

Mr. VERHELLE. That resignation was accepted. It would be the beginning of November.

Mr. PECORA. When you submitted your resignation, in either October or November of 1932, the time it was accepted, was that an entirely voluntary act on your part?

Mr. VERHELLE. I beg your pardon. I did not mean to leave that out. It was not, sir.

Mr. PECORA. What prompted it?

Mr. VERHELLE. It was requested by Mr. Mills.

Mr. PECORA. Requested by Mr. Mills.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Is that Mr. Wilson Mills?

Mr. VERHELLE. Wilson W. Mills.

Mr. PECORA. Was he then an executive officer of the Detroit Bankers Co.?

Mr. VERHELLE. I have never been able to decipher his relationship with that company at that time, sir.

Senator COUZENS. Why did he request it? [After a pause.] Now, you must remember that we expect the truth, the whole truth, and nothing but the truth.

Mr. VERHELLE. It is customary for me to tell the truth, Senator.

Senator COUZENS. I did not charge otherwise, but I do not know whether you are telling it all or not. What you are saying may be the truth, but I want you to tell it all.

Mr. VERHELLE. Anything I might say on that point would be a presumption, would it not?

Senator COUZENS. Not necessarily. If you were advised why Mr. Mills wanted your resignation, you would know that as a fact. That would not be a presumption.

Mr. VERHELLE. He stated to me that he did not want it; that he under no circumstances wanted my resignation; that it was the hardest thing he ever did in his life to suggest it.

Senator COUZENS. Who wanted it, then, as long as he requested it?

Mr. VERHELLE. He did not tell me specifically, but he suggested to me that certain of the officers——

Senator COUZENS. What certain officers?

Mr. VERHELLE. He did not state who they were, but his statement was something to the effect that the officers felt it was the thing to do; that he hated to do it; that that was the thing he hated to do most of anything he had ever done in his life, and so forth.

Senator COUZENS. Yet he was under the domination of some officer to do this thing, is that correct?

Mr. VERHELLE. I did not go into that relationship. As I say, I could not quite understand his relationship with the Detroit Bankers Co. at that particular moment.

Senator COUZENS. He was not an officer, then, at that time?

Mr. VERHELLE. I do not recall that he was.

Senator COUZENS. Did you ask any reasons as to why you were asked to resign?

Mr. VERHELLE. I believe I asked whether or not there was anything about my own record that was in any way questionable.

Senator COUZENS. What was the answer?

Mr. VERHELLE. I believe in answer to that he gave me the answer which I suggested here a moment ago.

Senator COUZENS. What was that? What was his answer?

Mr. VERHELLE. That there was absolutely nothing. Otherwise, of course, I could not have turned in that resignation.

Senator COUZENS. Was there no reference made at any time to your criticisms of the conduct of the Bankers Co.?

Mr. VERHELLE. Conduct of the Bankers Co., sir?

Senator COUZENS. I asked you whether there was not some discussion with respect to your criticism of the conduct of the Detroit Bankers Co. that took place at that time?

Mr. VERHELLE. I cannot recall any, sir.

Senator COUZENS. You had written a number of memorandums criticizing the conduct of the Detroit Bankers Co., or some of its actions, had you not?

Mr. VERHELLE. No, sir; not that I can recall.

Senator COUZENS. You do not recall?

Mr. VERHELLE. No, sir.

Senator COUZENS. You never wrote any memorandum criticizing some of the acts of the Detroit Bankers Co. in some of their proceedings?

Mr. VERHELLE. It would not have been at all unlikely, but I do not recall writing any memorandums whatsoever regarding the activities or proceedings of the Detroit Bankers Co., sir.

Senator COUZENS. You say it might have been so?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. So, if it might have been so, there must have been occasions for it. You did have some——

Mr. VERHELLE. I just do not recall the occasions, and I do not recall writing any memorandums on the proceedings.

Senator COUZENS. Whether you wrote any memorandums or not, did you have any criticisms to make of some of the procedures of the Detroit Bankers Co.?

Mr. VERHELLE. Well, to begin with, I doubt, if there had been anything wrong, whether I would have written any memorandums regarding it, because it would have been up to me to correct it, more or less. I was comptroller of the Detroit Bankers Co., and I would have merely corrected what was wrong.

Senator COUZENS. I am not charging anything wrong. There might have been a question of policy and procedure, which you could not have controlled. You would have had to carry out your orders; and I wanted to know whether those policies or orders were of doubtful wisdom or policy with respect to your operations as comptroller.

Mr. VERHELLE. Senator, the Detroit Bankers Co.'s activities, those which had been turned over to them, or those which they were handling, were, in the main, under my definite and direct jurisdiction. I do recall now that there was one activity on which I did not criticize the Detroit Bankers Co. in any sense of the word—that was, not directly so.

Senator COUZENS. What was that activity?

Mr. VERHELLE. The operation in connection with the collection of bad debts or notes that were hard to collect, or slow, or doubtful.

Senator COUZENS. Is it embarrassing to you, Mr. Verhelle, to be sitting to the right of your chief in answering these questions?

Mr. VERHELLE. Not at all.

Mr. BALLANTYNE. I will go out.

Senator COUZENS. You may go out.

Mr. BALLANTYNE. For just a few minutes.

Senator COUZENS. Yes; for 10 minutes.

You have told this committee all the criticisms that you had to make as active comptroller of the Detroit Bankers Co., of the conduct of the company, or its units, have you?

Mr. VERHELLE. I have not, sir. You have not asked that question.

Senator COUZENS. I ask it now.

Mr. VERHELLE. The real technical answer is no; I have not, because the question so far has been criticism regarding the Detroit Bankers Co., and the answers to that is that I cannot recall any criticism regarding the Detroit Bankers Co.

Senator COUZENS. I asked you later whether you had any criticism to make of the operations or the conduct of the Detroit Bankers Co. or any of its units.

Mr. VERHELLE. My particular job was to straighten out and to make criticism of the conduct of the units of the Detroit Bankers Co., to correct those as well as I could by advising these units as to the proper course of action, so that quite naturally—and I believe I generally put it in writing—there was a tremendous amount of what might be termed "criticism", put down in writing in various memorandums, some of which were probably sent and directed to substantially every unit in the group.

Senator COUZENS. Mr. Mills was the head of one of the units, was he not?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. Did you direct any criticism to the unit of which he was the head?

Mr. VERHELLE. Many, sir.

Senator COUZENS. What was the nature of them?

Mr. VERHELLE. I believe that in my criticisms I have covered the operations of practically every department of the bank. I believe that I have written up recommendations and suggestions regarding substantially every activity of that institution.

Senator COUZENS. Mr. Mills saw those criticisms?

Mr. VERHELLE. They were directed to him, sir, if you choose to call them criticism. I would like to have the word "constructive" added to it, because I believe that in every case I made a specific suggestion.

Mr. PECORA. Mr. Ballantyne, will you resume the stand?

TESTIMONY OF JOHN BALLANTYNE—Resumed

Mr. PECORA. Now, at the time of the issuance of the printed annual report of the Detroit Bankers Co. to its stockholders covering the year 1931, you were the president of the Detroit Bankers Co., were you not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. That report was printed and issued some time in January 1932, was it not?

Mr. BALLANTYNE. Just on the eve of the consolidation; yes.

Mr. PECORA. There has already been received in evidence here, as committee exhibit no. 9 of January 24, 1934, a printed copy of the annual report to the stockholders.

Mr. BALLANTYNE. 1932, you mean?

Mr. PECORA. For the year 1931.

Mr. BALLANTYNE. Yes; 1932.

Mr. PECORA. You identified this report yesterday.

Mr. BALLANTYNE. I have no doubt I did.

Mr. PECORA. The actual report itself is dated January 16, 1932, and was sent out over your signature as the president, was it not?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. I observe the following statement contained in this annual report for the year 1931. I will read it to you from the report [reading]:

The net income, after customary reserves, was \$7,475,293.47, equal to \$4.21 a share on the 1,776,205½ shares, \$20 par) authorized. Earnings for 1930 were equal to \$4.14 a share.

Now, through the medium of this report to the stockholders it was intended to give to the stockholders of the Detroit Bankers Co. a true, correct, and comprehensive statement of the financial condition of the company, was it not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. That was the essential purpose of the report?

Mr. BALLANTYNE. There was no thought of doing anything else.

Mr. PECORA. That was the essential purpose of the report, was it not?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. What do you understand by the term "net operating income"?

Mr. BALLANTYNE. Just what it implies.

Mr. PECORA. Tell us what you understand it to be.

Mr. BALLANTYNE. Income that was derived from the operations of the banks for that year.

Mr. PECORA. The operations of the banks?

Mr. BALLANTYNE. Of the banks, for that year.

Mr. PECORA. Or the operations of the company, the Detroit Bankers Co.?

Mr. BALLANTYNE. The Bankers Co. had no operations.

Mr. PECORA. What is that?

Mr. BALLANTYNE. It was not the Detroit Bankers Co. It was the units that made the earnings.

Mr. PECORA. As a matter of fact, this report did not give—

Mr. BALLANTYNE. We describe the fact that it is the result of the units of the Detroit Bankers Co., in another part of that report, in the same paragraph that you are referring to.

Mr. PECORA. How was this figure of \$7,475,293.47, which was stated in this report to be the net operating income after customary reserves, arrived at?

Mr. BALLANTYNE. It was furnished to me in the way it always had been made, by the officers of the bank, with assurances that those figures were correct. Obviously, I could not be chargeable with these figures personally. I had to depend on Mr. Verhelle and others to substantiate the correctness of those figures.

Mr. PECORA. When you said in this report for the year 1931 that the net operating income after customary reserves was \$7,475,293.47, did you mean to inform the stockholders of the Detroit Bankers Co. that that was the operating income of the company, or only of the unit banks?

Mr. BALLANTYNE. The unit banks.

Mr. PECORA. The unit banks?

Mr. BALLANTYNE. Yes, surely.

Mr. PECORA. And when you stated, in this report to the stockholders of the Detroit Bankers Co. that that net operating income was equal to \$4.21 a share on the 1,776,205½ shares, were you referring to the shares of the Detroit Bankers Co.?

Mr. BALLANTYNE. I think, however, Mr. Pecora, you have done so well with Mr. Verhelle, and he had so much more actual contact with the making of that report and the furnishing of the figures to me, that he could answer your questions much more intelligently than I could. I necessarily had to depend on the officers of the bank for the figures. I got them in the usual way that figures are gotten.

Mr. PECORA. I will question Mr. Verhelle subsequently about this, but meanwhile I want to ask you some questions about it, because this report is your report as the president of the Detroit Bankers Co.

Mr. BALLANTYNE. Yes.

Mr. PECORA. When you said in this report that the earnings for 1930 were equal to \$4.14 a share, you meant to give the stockholders of the company a comparative statement of the earnings for 1930 compared with the earnings for 1931, did you not?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. And we have already seen that you stated in this report to the stockholders that the earnings for 1931 were equal to \$4.21 a share, as compared with \$4.14 a share for the year 1930; is that not true?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. In other words, you wanted to give the stockholders the impression that the earnings of the company for 1931 per share exceeded the earnings of the company for 1930 per share, did you not?

Mr. BALLANTYNE. I wanted to make an honest statement above anything else. There was nothing else in my mind but to make an honest statement in this case. I wanted honest values back of every figure, and that is so there. These facts stated in that letter I believe to be absolutely correct.

Mr. PECORA. Why do you believe them to be absolutely correct?

Mr. BALLANTYNE. I got them from very dependable men.

Mr. PECORA. Who were they?

Mr. BALLANTYNE. Mr. Verhelle, Mr. Wilson——

Mr. PECORA. Mr. Mark Wilson?

Mr. BALLANTYNE. Yes; Mr. Joseph Verhelle, and the other officers of the company. They came through Mr. Verhelle and Mr. Mark Wilson.

Mr. PECORA. When you stated in this annual report for 1931 that the earnings were equal to \$4.21 a share as compared with earnings for 1930 equal to \$4.14 a share, did you mean to convey to the stockholders of the company that the company's business in 1931 was more prosperous and profitable than its business for the year 1930?

Mr. BALLANTYNE. I meant to convey the facts to them.

Mr. PECORA. Did you mean to convey that as the fact?

Mr. BALLANTYNE. Absolutely.

Mr. PECORA. To your knowledge, Mr. Ballantyne, were the actual earnings and profits of the Detroit Bankers Co. for 1931 greater than those for 1930?

Mr. BALLANTYNE. I have only the word of the officers to that effect.

Mr. PECORA. To your knowledge, was the company's business more profitable to it in 1931 than it had been in 1930?

Mr. BALLANTYNE. It was less expensive.

Mr. PECORA. Was it more profitable, to your knowledge, in 1931 than it was in 1930?

Mr. BALLANTYNE. My dear sir, I had only the knowledge that was furnished to me.

Senator COUZENS. You must answer Mr. Pecora's question.

Mr. BALLANTYNE. I had only the knowledge that was furnished to me.

Senator COUZENS. No one is denying that.

Mr. BALLANTYNE. I could not guess at any figures.

Senator COUZENS. Mr. Pecora did not ask you that. Will you please repeat the question, Mr. Pecora asked. The witness will have to answer that question.

(The reporter read the last question by Mr. Pecora.)

Mr. BALLANTYNE. The only knowledge I had was the knowledge obtained from the officers of the company, which I submitted in that report.

Senator COUZENS. That does not answer the question, Mr. Ballantyne. The question is whether or not you believed the profits in 1931 were greater than they were in 1930. That is a simple question.

Mr. BALLANTYNE. I think I am giving you a perfectly fair answer.

Mr. PECORA. What is the answer, yes or no?

Mr. BALLANTYNE. My knowledge was comprised of what I was informed from the officers of the company. I accepted their word on it. I had confidence in them. Obviously they were more, according to these statements.

Mr. PECORA. You mean that obviously, according to these statements embodied in the annual report——

Mr. BALLANTYNE. More money had been earned.

Mr. PECORA. Will you let me finish the question before you answer, Mr. Ballantyne? Do you mean to say that obviously, according to

the statements embodied in your report to the stockholders for the year 1931, the company's business that year was more profitable to it than had been its business for the year 1930?

Mr. BALLANTYNE. I believed that when that report went out.

Mr. PECORA. You believed it?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Was that belief based upon any personal knowledge that you had as president and a director of the Detroit Bankers Co., of its business transactions?

Mr. BALLANTYNE. I do not know that I had any knowledge that other folks did not have, Mr. Pecora.

Mr. PECORA. I am asking you about your own individual knowledge, and not somebody else's knowledge; and in asking you that I am asking it of you because you were not only a director of the company during all the years of 1930 and 1931, but you were also president of the company from May 1931 to the end of that year and subsequently.

Mr. BALLANTYNE. Yes.

Mr. PECORA. And I assume that as a director and as president you had some personal knowledge other than that given to you by accountants, that indicated to you whether or not the company's business was more profitable in 1931 than it had been in 1930.

Mr. BALLANTYNE. Mr. Pecora, I did not.

Mr. PECORA. What is that?

Mr. BALLANTYNE. I did not.

Mr. PECORA. You did not what?

Mr. BALLANTYNE. Have any knowledge other than was furnished me by the accountants and officers of the bank.

Mr. PECORA. Didn't you have knowledge, necessarily, of the company's business and operations which was acquired at first hand as a director of the company and as its president?

Mr. BALLANTYNE. No; nothing more than was furnished by the officers of the bank.

Mr. PECORA. You were the head officer of the company, were you not, the chief executive officer of the company, from May 1931 until the end of the year?

Mr. BALLANTYNE. Have you read the bylaws, Mr. Pecora?

Mr. PECORA. Will you answer my question, please, Mr. Ballantyne?

Mr. BALLANTYNE. I have answered it to the best of my ability.

Mr. PECORA. You answered it by asking me if I had read the bylaws.

Mr. BALLANTYNE. You said I was the chief officer.

Mr. PECORA. Weren't you?

Mr. BALLANTYNE. I do not know. That is why I asked you if you had read the bylaws.

Mr. PECORA. What were your duties as president of the company when you assumed that office or were elected to it in May 1931? Don't you know?

Mr. BALLANTYNE. President of the company.

Mr. PECORA. What were your duties as president of the company? Were you merely a figurehead?

Mr. BALLANTYNE. To preside at the meetings.

Mr. PECORA. Were you merely a figurehead?

Mr. BALLANTYNE. I suppose I was. The Bankers Co., as such, shortly after I—well, immediately following the consolidation—was superseded by another organization called the governing board.

Mr. PECORA. What consolidation are you referring to?

Mr. BALLANTYNE. The Peoples Wayne and the First National.

Mr. PECORA. That took place in December 1931?

Mr. BALLANTYNE. Yes.

Mr. PECORA. You became president of the Detroit Bankers Co. in May 1931.

Mr. BALLANTYNE. Mr. Pecora—

Mr. PECORA. So, what in the world—

Mr. BALLANTYNE. If you are asking me something I can answer obviously—I will answer this to you. Obviously, I had reasons for recommending the consolidation.

Mr. PECORA. I am not asking you about the consolidation that took place on December 31, 1931, between the First National Bank in Detroit and the Peoples Wayne County Bank. I have not asked you about that, have I?

Mr. BALLANTYNE. No.

Mr. PECORA. Then why, in your answers, do you refer to that consolidation, when my questions in no way relate to that consolidation?

Mr. BALLANTYNE. You are trying to get something out of me that I do not know.

Mr. PECORA. Don't you know what your duties as president of the Detroit Bankers Co. were?

Mr. BALLANTYNE. I do not know that I do—to preside at the meetings of the Detroit Bankers Co.

Mr. PECORA. Were you also the executive head of the company?

Mr. BALLANTYNE. There were no activities in the Detroit Bankers Co. The Detroit Bankers Co., Mr. Pecora, were just trustees.

Mr. PECORA. Of what?

Mr. BALLANTYNE. Just trustees.

Mr. PECORA. Just trustees of what?

Mr. BALLANTYNE. For the stockholders and for the directors of these banks.

Mr. PECORA. The Detroit Bankers Co. was a company that owned virtually all of the capital stock of a number of large banks, was it not?

Mr. BALLANTYNE. They were only trustees. No; they did not own it.

Mr. PECORA. They did not own it?

Mr. BALLANTYNE. No. I was trustee, for instance, for Horace Dodge, one of the biggest estates in this country.

Mr. PECORA. We are not talking about the Horace Dodge estate.

Mr. BALLANTYNE. I did not own his estate. I was a trustee, and that is all these men were.

Mr. PECORA. Mr. Ballantyne, did not the Detroit Bankers Co. own outright the capital stock—

Mr. BALLANTYNE. No.

Mr. PECORA. Wait. Let me finish my questions, won't you, please?

Mr. BALLANTYNE. Yes.

Mr. PECORA. I will start it again. As a matter of fact, did not the Detroit Bankers Co. own outright the capital stock of the various

banks which it had acquired during the course of its existence, with the exception of directors' qualifying shares of various unit banks?

Mr. BALLANTYNE (after conferring with an associate). I dare say I am confused about it. I was the chief executive officer of the Bankers Co., and we were the owners of this stock. Is that what you are asking?

Mr. PECORA. I thought that was what I was asking.

Mr. BALLANTYNE. I will answer in the affirmative.

Mr. PECORA. You answer that question now in the affirmative?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. And as president of the Detroit Bankers Co. you received a fairly substantial salary, didn't you?

Mr. BALLANTYNE. Yes. Well, I received \$50,000 a year.

Mr. PECORA. \$50,000 a year?

Mr. BALLANTYNE. Yes.

Mr. PECORA. You do not suppose that that \$50,000 a year was paid to you for services rendered by a figurehead, do you?

Mr. BALLANTYNE. No.

Mr. PECORA. So that you yourself considered that you were something more than a figurehead when you became president of the Detroit Bankers Co. at a salary of \$50,000 a year, did you not?

Mr. BALLANTYNE. Well, Mr. Pecora, I would like to get this very clear in your record. I had no wish to be president of the Detroit Bankers Co. Fate, of course, sat on me; and when I took hold of that office it was with the definite understanding of everybody that it would be for short tenure. My years and my strength would not permit me to take care of it. As to intimate knowledge of anything pertaining to that bank, the Detroit Bankers Co., you are inferring that I might know something that others did not know.

Mr. PECORA. No; I am not inferring any such thing.

Mr. BALLANTYNE. Perhaps I mistake your question.

Mr. PECORA. The question that I last asked you, Mr. Ballantyne, was a very simple one.

Mr. BALLANTYNE. Whether I knew——

Mr. PECORA. No. The question was, when you were made president of the Detroit Bankers Co. and received as its president a salary of \$50,000 a year, did you consider that you were paid that salary for being something more than a mere figurehead of the company?

Mr. BALLANTYNE. I thought so.

Mr. PECORA. And the duties assigned to you and which devolved upon you as president of the Detroit Bankers Co. were very responsible duties, were they not?

Mr. BALLANTYNE. They proved to be.

Mr. PECORA. You knew that they would be in advance, did you not?

Mr. BALLANTYNE. I do not know that I knew that they would be as responsible as they were.

Mr. PECORA. You knew that your duties would be more than merely nominal as president of the Detroit Bankers Co., did you not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. As president it was your duty to supervise the operation of the business activities of the company, was it not?

Mr. BALLANTYNE. The Detroit Bankers Co., to my knowledge, were not supervising or running the banks, you know.

Mr. PECORA. I didn't ask you anything about that.

Mr. BALLANTYNE. To supervise; yes.

Mr. PECORA. Didn't you understand that you were paid a salary of \$50,000 a year, when you became president of the Detroit Bankers Co., to compensate you for services that you would be expected to discharge as its president?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And among those services was the supervision, as chief executive officer of the company, of its business activities and affairs?

Mr. BALLANTYNE. Yes.

Mr. PECORA. In the discharge of those services did you learn currently during the year 1931, or that portion of it in which you were president of the company, whether or not the business of the company was more prosperous than it had been during the preceding year of 1930?

Mr. BALLANTYNE. All I learned, Mr. Pecora, was what was furnished by the officers, as I said before, and these figures were given to me by the officers through Mr. Verhelle. It would be impossible for any one man to have overlooked all the units of that bank—quite impossible. We had to depend on our officers. Is that a fair answer?

Mr. PECORA. And the principal officer was the president.

Mr. BALLANTYNE. Yes; and he was to receive the reports of those officers. He had to accept them as accurate.

Mr. PECORA. I am not talking about any figures.

Mr. BALLANTYNE. No?

Mr. PECORA. I am talking about the general business of the company during the year 1931, when you were a director of it for the entire year and president of it from May until the end of the year.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Did you, as such director and as such president, acquire knowledge at first hand of the business affairs of the company which enabled you to determine whether or not its business for that year was more prosperous or profitable than it had been for the year 1930?

Mr. BALLANTYNE. As a matter of fact, I do not know that I can. I did not have any suspicion that there was anything different than what was reported here in these reports. I do not know now.

Mr. PECORA. As president—

Mr. BALLANTYNE. The president is not—

Mr. PECORA. As president of the company and its chief executive officer from May until December 31, 1931, couldn't you tell?

Mr. BALLANTYNE. There are a number of things—

Mr. PECORA. Couldn't you tell whether or not the company was operating more profitably than it had been during the preceding year?

Mr. BALLANTYNE. No.

Mr. PECORA. You did not know that?

Mr. BALLANTYNE. No.

Mr. PECORA. You had no means of knowing it?

Mr. BALLANTYNE. Only by the information furnished me.

Mr. PECORA. And only by that information?

Mr. BALLANTYNE. Surely.

Mr. PECORA. And that information merely consisted of accounting statements and figures?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Did you believe, when you got out this annual report to the stockholders of the company for the year 1931, that during the year 1931 the company's business had been more profitable than it had been in the preceding year?

Mr. BALLANTYNE. I believed every word that was in that report.

Mr. PECORA. In this report did you mean to say, in substance or effect, that the business of the company for 1931 had been more profitable than its business for the year 1930?

Mr. BALLANTYNE. I meant exactly what was said there.

Mr. PECORA. Did you mean, in saying what you did say in the report, to convey the impression to the stockholders that, according to your knowledge and belief, the company's business in 1931 had been more profitable than its business in 1930?

Mr. BALLANTYNE. I know that during that year—I think the First National Bank's deposits increased about \$30,000,000.

Mr. PECORA. I am not talking about the First National Bank's deposits, and I am not talking about the deposits of any unit bank. I am talking about the business of the separate entity known as the Detroit Bankers Co., of which you were president.

Mr. BALLANTYNE. I have got to confine my answer to the facts, that the idea I had generally of that statement was that it was correct.

Mr. PECORA. What statement are you now referring to?

Mr. BALLANTYNE. That the results of the operations were equal to \$4.14 a share, and that the net operating revenues for the next year were \$7,450,000, equal to \$4.21 a share.

Mr. PECORA. And that the earnings for 1930 were equal to \$4.14 a share, is that right?

Mr. BALLANTYNE. Yes.

Mr. PECORA. That is what you stated to the stockholders?

Mr. BALLANTYNE. Yes.

Mr. PECORA. In saying that to the stockholders did you mean to convey the belief, opinion, or impression that for the year 1931, the company's business was more profitable than it had been for 1930?

Mr. BALLANTYNE. I will answer that question by saying I was given the facts. What I mean is, that I didn't know, myself. I do not suppose there are two statements made by presidents of banks that convey the same language. I might have been anxious to put my best foot forward, I don't know, because times were so difficult. But I had no question at all at the time this report was made, as to the fact that the bank was in a sound condition.

Mr. PECORA. I am not talking now about that—

Mr. BALLANTYNE (continuing). Well, that the earnings for the year before were just about the same. I had no means of knowing otherwise. Mr. Pecora, I had absolutely no means of knowing otherwise. The mere fact of being president does not make a man a wizard. You have to depend upon figures and facts as furnished to you by the officers of the various banks.

Senator COUZENS. Mr. Ballantyne, you have read very many financial statements, have you not?

Mr. BALLANTYNE. Oh, yes.

Senator COUZENS. For how many years have you read financial statements?

Mr. BALLANTYNE. How many?

Senator COUZENS. Yes.

Mr. BALLANTYNE. Oh, I could not say.

Senator COUZENS. Can't you answer as to that?

Mr. BALLANTYNE. Of course I can't answer that question.

Senator COUZENS. Do you mean to say that you cannot answer that question?

Mr. BALLANTYNE. How many financial statements I have read?

Senator COUZENS. Oh, no. For how many years have you read financial statements, was my question.

Mr. BALLANTYNE. Oh! For upwards of 40 years.

Senator COUZENS. Well, if you were handed this statement as a stockholder of the Detroit Bankers Co., and not as an officer, and you read in the report that in 1930 the company earned \$4.14 a share and in 1931 earned \$4.21 a share, you would know enough to know that that implied at least a better showing in 1931 than in 1930, wouldn't you?

Mr. PECORA. What is the answer to that question, Mr. Ballantyne?

Mr. BALLANTYNE. He ought to know what?

Mr. PECORA. Mr. Ballantyne, if you would only listen to the questions as propounded instead of engaging in conversation with Mr. Verhelle while questions are being put to you, you would know what each question is.

Mr. BALLANTYNE. Mr. Pecora, I have one ear that I cannot hear out of.

Mr. PECORA. Suppose you devote that one ear to the questioner and not to hearing what Mr. Verhelle is whispering to you.

Mr. BALLANTYNE. All right.

Mr. PECORA. Now, will you please answer Senator Couzens' question?

Mr. BALLANTYNE. What was it?

Senator COUZENS. The committee reporter will read the question to you.

(Thereupon the question was read as follows:)

Senator COUZENS. Well, if you were handed this statement as a stockholder of the Detroit Bankers Co., and not as an officer, and you read in the report that in 1930 the company earned \$4.14 a share and in 1931 earned \$4.21 a share, you would know enough to know that that implied at least a better showing in 1931 than in 1930, wouldn't you?

Mr. BALLANTYNE. Oh, yes.

Mr. PECORA. Now, I show you a printed document entitled "Annual Report to Stockholders, 1930, Detroit Bankers Co., Detroit."

Will you please look at it and tell me if you recognize it to be a true and correct copy of the annual report submitted to the stockholders of the Detroit Bankers Co. for the year 1930 by and in behalf of the company?

Mr. BALLANTYNE (after looking at the printed report). Oh, yes; that is undoubtedly it.

Mr. PECORA. Mr. Chairman, I offer it in evidence, but inasmuch as it is quite voluminous it need not be printed in the record.

Senator COUZENS (presiding). The printed annual report will be received and marked by the committee reporter as an exhibit, but not to be entered on the record.

(The annual report to stockholders for the year 1930 of the Detroit Bankers Co. was marked "Committee Exhibit No. 10, Jan. 25, 1934", and will be kept with the records of the subcommittee, but not printed in the hearings.)

Mr. PECORA. The report for 1930, which has been marked in evidence as "Committee Exhibit No. 10" of this date, I now have before me. Mr. Ballantyne, have you before you a duplicate copy of this annual report?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Will you turn to the double page in the middle of it, entitled "Consolidated Statement of Condition of the Units of the Detroit Bankers Co. at the close of business, December 31, 1930"?

Mr. BALLANTYNE. All right.

Mr. PECORA. Now, have you before you a duplicate copy of the printed annual report to the stockholders of the Detroit Bankers Co. for the year 1931, a copy of which has been marked in evidence as "Committee Exhibit No. 9", as of January 24, 1934?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. Will you turn in that printed annual report to the pages captioned "Combined statement of condition of banking units at the close of business, December 31, 1931"?

Mr. BALLANTYNE. Yes.

Mr. PECORA. What was the capital stock of the Detroit Bankers Co. as of December 31, 1930, as shown in the consolidated statement of condition included in that report marked "Exhibit No. 10"?

Mr. BALLANTYNE. The capital stock is shown as \$26,960,000.

Mr. PECORA. And what was the surplus of the company as shown by that statement?

Mr. BALLANTYNE. It was \$47,650,000.

Mr. PECORA. And what was the amount of the undivided profits as therein shown?

Mr. BALLANTYNE. It was \$17,218,000.

Mr. PECORA. As a matter of fact, it is shown as \$17,218,579.71, isn't it?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And what is shown therein to be the total capital, surplus, and undivided profits of the units of the Detroit Bankers Co. as of December 31, 1930?

Mr. BALLANTYNE. It is shown as seventeen million, three hundred thousand—

Mr. PECORA (interposing). No. Give me the aggregate capital and surplus.

Mr. BALLANTYNE. It is shown as \$91,828,579.01.

Mr. PECORA. What was the capital stock as shown in the annual report to the stockholders as of December 31, 1931?

Mr. BALLANTYNE. It is shown as \$29,410,000.

Mr. PECORA. And what was the amount of the surplus shown as of that date?

Mr. BALLANTYNE. It is \$29,190,000.

Mr. PECORA. What was the amount of the undivided profits shown therein?

Mr. BALLANTYNE. It is \$9,857,000.

Mr. PECORA. It is \$9,859,000, isn't it?

Mr. BALLANTYNE. Yes; it is \$9,859,912.03.

Mr. PECORA. And the total capital, surplus, and undivided profits as of December 31, 1931, was how much?

Mr. BALLANTYNE. It was \$68,459,912.03.

Mr. PECORA. Now, how much less was the total capital, surplus, and undivided profits as of December 31, 1931, than it was as of December 31, 1930?

Mr. BALLANTYNE. It was \$23,368,660.98.

Mr. PECORA. That figure is \$22,368,666.98, isn't it?

Mr. BALLANTYNE. It is, as I make it, \$23,368,666.98, I think.

Mr. PECORA. You say it is \$23,000,000?

Mr. BALLANTYNE. Yes.

Mr. PECORA. All right. It is \$23,368,666.98, is that right, now?

Mr. BALLANTYNE. Yes.

Mr. PECORA. In other words, as a result of the business transacted by the Detroit Bankers Co. and its various units during the year, 1931, its capital, surplus, and undivided profits on December 31, 1931, were \$23,368,666.98 less than they were on December 31, 1930?

Mr. BALLANTYNE. Yes.

Mr. PECORA. What was that reduction due to?

Mr. BALLANTYNE. Why, it was due to cleaning house under the auspices of the Federal authorities. It was not due to losses made in 1 year by any manner of means. I desired in my report—well, the first report I made was in June of 1931, which, by the way, was made on figures compiled, as I say again, by Mr. Verhelle. I wanted to have honest assets back of the figures that were to be shown there. And we had an examination made of the allied units, the Peoples Wayne Bank, and the First National Bank, under the jurisdiction of Mr. Verhelle and Mr. Hopkins, and they themselves dictated what they thought should be taken out of those banks. But by no means did it represent the year's losses. It was the background of many years, and in addition as a result of depreciation. But these figures, I give you my word for it, Mr. Pecora, were furnished to me, and in the matter of that consolidation which was effected under my advice, it was for only one purpose, yes, Mr. Pecora, for one and only one purpose, in order to make an honest statement.

Mr. PECORA. What consolidation are you now referring to?

Mr. BALLANTYNE. Of the Peoples Wayne Bank and the First National Bank. That was made just prior to this last statement.

Mr. PECORA. I am not asking you anything about that consolidation now.

Mr. BALLANTYNE. Well, you asked me—

Mr. PECORA (interposing). I cannot understand why you continue to drag that matter into your answer.

Mr. BALLANTYNE. It may be that I misunderstood your question. You asked me the reason for the difference in these figures, and I am giving it to you.

Mr. PECORA. The reason was that during the year 1931 the Detroit Bankers Co. and its units wrote off losses that had been incurred to the extent of the greater part of this \$23,000,000, wasn't it?

Mr. BALLANTYNE. More than that.

Mr. PECORA. And the greater part of those losses were incurred during the year 1931, were they not?

Mr. BALLANTYNE. Oh, no.

Mr. PECORA. Do you know how much of them were incurred during 1931?

Mr. BALLANTYNE. No; I could not attempt to tell you that.

Mr. PECORA. Why do you say, then, that the greater part was not incurred during the year 1931?

Mr. BALLANTYNE. No; it was not.

Mr. PECORA. Why do you say the greater part of those \$23,000,000 depreciation of the capital assets of the Detroit Bankers Co. and its units was not due to losses sustained during the year 1931?

Mr. BALLANTYNE. Because I know they were not.

Mr. PECORA. How much of them were, or what proportion of them even approximately were incurred during the year 1931?

Mr. BALLANTYNE. I am not going to hazard a guess on that.

Mr. PECORA. Aren't you hazarding a guess when you say the greater part of those \$23,000,000, or that approximate figures, was not incurred and did not represent losses during the year 1931?

Mr. BALLANTYNE. No; I am not hazarding a guess there.

Mr. PECORA. You know that?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. You have personal knowledge of that?

Mr. BALLANTYNE. I am confident of it.

Mr. PECORA. Now, from whom did you get the figures that caused you to say in your annual report to stockholders of the Detroit Bankers Co. for the year 1931 that the net operating income, after customary reserves, was \$7,475,293.47, equal to \$4.21 a share?

Mr. BALLANTYNE. From the comptroller of the bank, Mr. Verhelle.

Mr. PECORA. You got them from Mr. Verhelle?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. Do you know how he arrived at that figure?

Mr. BALLANTYNE. Well, he accepted the statements furnished by the various units, I dare say, from the officers of the various units, as most bank comptrollers do, and measured the earnings, and arrived at that figure.

Mr. PECORA. Now, is that what Mr. Verhelle has told you?

Mr. BALLANTYNE. Oh, that is the only way he could do it.

Mr. PECORA. Is that what he has told you?

Mr. BALLANTYNE. No; he did not tell me that.

Mr. PECORA. You are assuming that that is how he got it?

Mr. BALLANTYNE. Oh; I have known that was how he got it.

Mr. PECORA. You know personally that that is how he got it?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. You do not mean that, do you?

Mr. BALLANTYNE. Well, I know as well as I know anything that that was how he got it?

Mr. PECORA. Well, that is a different statement.

Mr. BALLANTYNE. He is here and you can ask him.

Mr. PECORA. I am going to later on. Now, Mr. Ballantyne, did you know that for the purpose of arriving at this figure of \$7,475,293.47 as being the net operating income of the Detroit Bankers Co. for the year 1931, after customary reserves had been arrived at, it

was done substantially in the following manner: By first transferring from the reserves account the sum of \$22,373,880.30 to operating account? Do you know that that was done?

Mr. BALLANTYNE. Well, was that done? Mr. Verhelle, do you know that that was done?

Mr. VERHELLE. No.

Mr. BALLANTYNE. No; I have no knowledge of it.

Mr. PECORA. You don't know how this figure of \$7,485,293.47 was arrived at, do you?

Mr. BALLANTYNE. Well, I know that it was the sum of the earnings reported by the various units.

Mr. PECORA. That it was derived how?

Mr. BALLANTYNE. That it was the sum of the earnings reported by the various units of the bank. There could be no other way.

Mr. PECORA. I think I will examine Mr. Verhelle about this matter from now on.

TESTIMONY OF JOSEPH F. VERHELLE—Resumed

Mr. PECORA. Mr. Verhelle, you have heard the testimony just given by Mr. Ballantyne to the effect that the figures embodied in the annual report to stockholders of the Detroit Bankers Co. for the year 1931 were obtained by him from you as the comptroller of the company?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That testimony is true, I presume?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, where did you get the figure of \$7,475,293.47, which is stated in this report to stockholders to have been the net operating income of the company after customary reserves? Or how did you arrive at that figure?

Mr. VERHELLE. Of course, in answer to the first question, as to where I got that, it was from the various units, naturally, from the various officers of the various units, who were responsible for the recording of such items as earnings, expenses, and so forth; presumably from the general bookkeepers, together with the men in the different accrual departments, and what not. As to how it was arrived at, I would say that it took into consideration, first of all, gross operating income which each of these units carries on its books, which consists of a multitude of items, such as interest earned, and so forth. I do not suppose you are interested in that detail. Then, in addition to that, profits on investments, profits on real estate, and recoveries on loans. The total of that was substantially, say, within a million dollars of \$35,000,000.

Mr. PECORA. Go ahead.

Mr. VERHELLE. Against that were charged the expenses of the various units. The principal item included in that, of course, was interest expense, general operating expenses, in addition to which there was charged to each such items as depreciation, any furniture and fixtures purchased, inasmuch as none of the units carried any of those items on their books, they being charged off immediately. So those were charged to them. And then—

Senator Couzens (interposing). Were any losses charged to them?

MR. VERHELLE. Yes. In the year 1930 we charged against—and when I say “we” I am making a mistake. I should say the units that made up these totals charged against their operating expense and credited to reserve account for the purpose of meeting losses that would be incurred as a result of their own activities for that year the sum of approximately $1\frac{1}{2}$ million dollars. That may be out \$300,000 or \$400,000, and it is probably a little less than $1\frac{1}{2}$ million dollars.

In the year 1931, and that is in your question here, instead of that customary figure those reserves charged to operating expense were materially increased—and again I am saying it within \$300,000 or \$400,000—increased substantially, approximately \$3,000,000. This procedure was in line with the accrual system which was in effect. That is, daily certain specific amounts were set up by these organizations into a reserve for a contingency account, the purpose of which was to provide for losses incurred against the business then conducted.

During the year 1930, as well as during the year 1931, other amounts were charged to the undivided-profits account, as representing losses incurred during the previous years, which in the best judgment of the men conducting the affairs of the business during those years they had failed to realize. After all, they were chasing this thing down the hill.

Now, the result of taking these gross earnings, which I say were approximately \$35,000,000, and deducting what must have been approximately \$28,000,000 expense, was the method of arriving at the \$7,000,000.

There is a very clear explanation of that, by the way, in the June 30, 1931, report, which came out in between those two dates.

MR. PECORA. Let me have a copy of that very clear explanation.

MR. VERHELLE. That is, on this particular question you have in mind.

MR. PECORA. Is that the only copy you have?

MR. VERHELLE. This is the only copy I have of this report.

MR. PECORA. The document you have produced, and which you say contains “this very clear explanation”, is a printed document entitled “Semiannual Report to Stockholders, June 30, 1931, of the Detroit Bankers Co.”

MR. CHAIRMAN, I offer it in evidence.

SENATOR COUZENS. Mr. Verhelle, was that report circulated among the public?

MR. VERHELLE. It was circulated in exactly the same or identical manner as is done in the case of any bank to the stockholders.

MR. PECORA. Mr. Chairman, I offer it in evidence, but it need not be spread on the record as it is quite voluminous.

SENATOR COUZENS. The report will be received in evidence, and appropriately marked as to exhibit number, with the understanding that it is not to be spread in full on the record.

(The semiannual report of Detroit Bankers Co. to stockholders, as of the date June 30, 1931, was marked “Committee Exhibit No. 11, Jan. 25, 1934”, and will be kept in the files of the subcommittee, not to be printed in the hearings.)

Mr. PECORA. Mr. Verhelle, will you refer me in this semiannual report, which has just been received in evidence as committee exhibit no. 11, to this very clear explanation of the question I propounded to you?

Mr. VERHELLE. The question to which this provides an explanation is the question as to what happened to the \$23,000,000 referred to before. This takes into consideration only one half of the year and contains at the beginning of the statement—may I just read it?

Mr. PECORA. I will tell you what I think you better do: Just take a pencil and indicate by marginal notes or lines the portion that constitutes this "very clear explanation", and let me have it.

Mr. VERHELLE. All right. That is now marked so as to show it.

Mr. PECORA. You do not mean the pages in between where you have marked the report, do you?

Mr. VERHELLE. No, sir.

Mr. PECORA. You have marked a page which I will now read into the record:

To the stockholders of the Detroit Bankers Co.:

The report herewith submitted covers our operations during the first half of 1931:

The combined earnings of the banking units for the first 6 months of 1931, after setting aside reserves for every form of expense, including interest, taxes, depreciation, and so forth, were \$5,819,569.18. Out of these earnings there was set aside reserves for contingencies of \$1,918,820.70. Net earnings available for dividends were \$3,908,748.48. Dividends paid were \$3,036,200. The balance that was transferred to undivided profits was \$872,548.48.

And the other page that you have marked in this report reads as follows:

Undivided profits on December 31, 1931, \$17,218,579.01, less amount transferred to surplus, Grosse Pointe Savings Bank of \$15,000, balance \$17,203,579.01; less amounts set aside as reserves to guarantee deposits of other banks, \$1,967,788.50, balance \$15,235,790.51; less amounts transferred to reserves for contingencies, \$6,000,000, balance \$9,235,790.51. Add profits first half of 1931, \$3,908,748.48, gives \$13,144,538.99; less dividends paid first half of 1931, \$3,036,200; undivided profits on June 30, 1931, \$10,108,338.99.

Is that right? These are the two pages in the semiannual report that you marked.

Mr. VERHELLE. Yes.

Mr. PECORA. These two pages constitute the "very clear explanation" that you have referred to.

Mr. VERHELLE. To one of your questions, as to the method by which it was arrived at, being an answer to one of your questions, because that takes into consideration the first half of the year, whereas your question referred to the year 1931.

Mr. PECORA. Well, so far as I can understand these two pages, which constitute this "very clear explanation", they show, among other things, that on December 31, 1930, the undivided profits of the Detroit Bankers Co. and its units amounted to \$17,218,579.01; and at the end of the first half of 1931, namely, on June 30, 1931, or 6 months later, those undivided profits had been reduced to \$10,108,338.99, or a loss in the undivided profits account of over \$7,000,000 for the first 6 months of the year 1931. Isn't that correct?

Mr. VERHELLE. Except for the word "losses." It is a reduction.

Mr. PECORA. Well, we will call it a reduction. Or does it represent losses, or does it represent anything other than losses, what you now call a reduction?

Mr. VERHELLE. It represents a reduction in the undivided profits account, because you asked me—

Mr. PECORA (interposing). Doesn't that reduction represent, in substance and effect, losses?

Mr. VERHELLE. No, sir.

Mr. PECORA. What does it represent?

Mr. VERHELLE. I can myself clearly explain that by taking a specific item to which that would be applied. That is, taking one of the items that make up that group.

Mr. PECORA. Why not just take this page, embodied in the semi-annual report marked in evidence "Committee Exhibit No. 11", which page you have marked as one of two pages furnishing this "very clear explanation"?

Mr. VERHELLE. Well, I cannot explain it your way, sir.

Senator COUZENS (presiding). We will give you until after lunch to explain it. The subcommittee will now recess until 2 o'clock p.m.

Mr. VERHELLE. May I have that semiannual report, Mr. Pecora?

Mr. PECORA. Yes; if you need it.

Mr. VERHELLE. I haven't another copy of it.

Mr. PECORA. All right.

(Thereupon, at 12:50 p.m., Thursday, Jan. 25, 1934, the subcommittee recessed until 2 p.m. the same date, at the same place.)

AFTERNOON SESSION

The hearing was resumed at the expiration of the recess.

Senator COUZENS (presiding). The hearing will please come to order.

TESTIMONY OF JOSEPH F. VERHELLE—Resumed

Mr. PECORA. The last question and answer, Mr. Verhelle, are as follows:

Mr. PECORA. Well, so far as I can understand these two pages, which constitute this very clear explanation, they show, among other things, that on December 31, 1930, the undivided profits of the Detroit Bankers Co. and its banking units amounted to \$17,218,579.01, and at the end of the first half of 1931, namely, on June 30, 1931, or 6 months later, those undivided profits had been reduced to \$10,108,338.99, or a loss in the undivided-profit account of over \$7,000,000 for the first 6 months of the year 1931. Is not that correct?

Mr. VERHELLE. Except for the word "loss"; it is a reduction.

Now, what was that reduction in the undivided-profits item of over \$7,000,000 due to, Mr. Verhelle? We are talking now about a reduction established through the first 6 months of the year 1931.

Mr. VERHELLE. The principal item in that statement resulting in the reduction in the undivided-profit account is the transfer to the reserve for contingencies in the amount of \$6,000,000, which figure represents amounts set aside by various units of the group to provide for the writing down of assets contained in their statements in case the amounts at which they are set up are not fully realized upon from liquidation.

Mr. PECORA. You have given us the principal item?

Mr. VERHELLE. The item directly above, of \$1,967,788.50, is a similar item but pertains particularly to banks that were in liquidation, taken over by some of the other Detroit banks or banks in the immediate vicinity of Detroit.

Mr. PECORA. Are you able to give the committee the break-down of the items that produce this net operating income after customary reserves of \$7,475,293.47, set forth in the annual report to the stockholders of the holding company, the Detroit Bankers Co., for the year 1931?

Mr. VERHELLE. I can give those to you approximately.

Mr. PECORA. Well, do it that way, then, please.

Mr. VERHELLE. On the income side there is a gross income of approximately \$34,192,000. There are profits on investments totaling approximately \$1,151,000; profits on real estate totaling approximately \$38,000; recoveries on charge-off items of approximately \$208,000, making a total of \$35,589,000.

From that should be deducted expense of interest totaling \$12,645,000; general expense of \$11,525,000; depreciation of \$385,000; furniture and fixtures, \$117,000; building company, \$340,000. All these figures are approximate. The contingent reserves were credited with \$3,100,000. That makes a grand total of expense to be deducted from the \$35,000,000 of \$28,112,000, which, when deducted, results in net operating income of \$7,477,000.

As I have indicated, these figures are approximate, and I appear to be off a couple of thousand dollars, not having the books of these units here.

Out of that income of \$7,477,000 was paid \$6,051,000 in dividends, resulting in a net earning over dividends of \$1,425,000, approximately. We had an invested capital at the beginning of the year of \$91,828,579.01. We will have to drop the end figures, because I am dealing in thousands. To that was added income over dividends of \$1,425,000, resulting in a new invested capital figure of \$93,253,000.

Through the declaration of the special dividend by the Detroit Trust Co. this figure was reduced by \$4,000,000 and was further reduced by a million and a half in connection with the special dividend of the First National Bank, and there were charged off, as nearly as I can figure, or charge down, assets totaling \$19,292,000. So that we have reductions in the invested capital totaling \$24,792,000 which, when deducted from \$93,253,000, leaves us with \$68,461,000. I was \$2,000 off at the beginning——

Mr. PECORA. As what?

Mr. VERHELLE. Representing an invested capital after these changes were made.

Mr. PECORA. The amount of that invested capital, as you call it, represents capital stock, surplus, and undivided profits, does it not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. In the annual report for 1931 the aggregate amount of invested capital, as you call it, is given as \$68,459,912.03. That is a fairly accurate figure, is it not?

Mr. VERHELLE. Yes. Pardon me, sir. The figures of course in this report are correct.

Mr. PECORA. Those that you have given us here this afternoon are approximates?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. The amount of the invested capital, as you call it, for the Detroit Bankers Co. and of its units as of December 31, 1930, was \$91,828,579.01, was it not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Resulting in a reduction of invested capital or a reduction of the combined capital, surplus, and undivided profits, of over \$23,000,000 between December 31, 1930, and December 31, 1931?

Mr. VERHELLE. Correct.

Mr. PECORA. That reduction was due to the various transactions that you have set forth here this afternoon?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And the principal item that contributed to that reduction of over \$23,000,000 in the capital assets of the company in 1 year's time was a charge-down of assets amounting to \$19,292,000, approximately?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. As a matter of fact, at the end of 1931 the financial condition of the company and its combined banking units was \$23,000,000 worse off than its condition at the end of the preceding year?

Mr. VERHELLE. No, sir.

Mr. PECORA. Is not that the condition reflected by the capital assets of the company and its units as of the close of business in 1930 as compared with the close of business in 1931?

Mr. VERHELLE. That is the condition as reflected by those particular figures, sir, but it does not reflect the actual condition of the assets behind them.

Mr. PECORA. Well, at the end of 1931 was the Detroit Bankers Co. better off financially than it was at the end of the preceding year?

Mr. VERHELLE. It was not.

Mr. PECORA. Is there anything in the annual report given to the stockholders for the year 1931 that sets that forth?

Mr. VERHELLE. Not in the annual report, sir, but in another letter written to the stockholders concerning this particular matter.

Mr. PECORA. Can you produce such other letter or a copy of it?

Mr. VERHELLE. I meant to bring that. [After referring to files:] I would like to explain that a letter was written during the month of November to the stockholders of these various units——

Mr. PECORA. November of what year?

Mr. VERHELLE. Of 1931—which was written in the offices of the Detroit Bankers Co. after consultation with various individuals.

Mr. PECORA. After consultation with whom?

Mr. VERHELLE. Various officers and directors.

Mr. PECORA. Well, who were they?

Mr. VERHELLE. Among them would be Mr. Mark Wilson, who is an officer of the Detroit Bankers Co.; and I do not specifically recall just at this particular moment—it may come to me in a moment—what directors. This letter was drafted——

Mr. PECORA. Did you have a conference with those gentlemen?

Mr. VERHELLE. Well, I had a number of discussions with them over the type of letter, which letter was sent out to Mr. Ballantyne that evening for his review; and I have here a letter which was sent out to him, together with a letter that was actually sent out to the stockholders containing the changes recommended by him in that particular letter. There was also that day—

Mr. PECORA. Before you go any further, will you produce the letter that you say was sent out to the stockholders?

Senator COUZENS. First, produce the one, if you can, that was sent to Mr. Ballantyne, and then the one that was corrected by him and sent to the stockholders.

Mr. VERHELLE (handing two papers to Mr. Pecora). In addition to those letters there were other methods by which the public was informed, of which I can get you copies.

Mr. PECORA. You have produced here in response to a question a photostatic copy of what purports to be a letter on the letterhead of Detroit Bankers Co. addressed "To our stockholders", dated November 21, 1931; but I see a legend or inscription in the upper right-hand corner of this photostatic copy reading as follows:

"This letter was not sent out."

Was this letter sent out?

Mr. VERHELLE. As I have attempted to explain, that was the first draft of the letter, and the next letter was the actual one.

Mr. PECORA. Suppose we put in evidence the photostatic copy of the letter that the witness has now referred to as the first draft of the letter to the stockholders but which was not sent out to the stockholders.

Senator COUZENS. That may be entered.

(Photostatic copy of draft of letter dated Nov. 21, 1931, addressed, on the letterhead of the Detroit Bankers Co., "To our stockholders", was received in evidence, marked "Committee Exhibit No. 12, Jan. 25, 1934.")

Mr. PECORA. You also have given me, in response to a request that you produce the letter or copy thereof that was sent to the stockholders, what appears to be a mimeograph copy of a letter on the letterhead of the Detroit Bankers Co., dated November 21, 1931, addressed "To our stockholders" and bearing a facsimile of the signature of John Ballantyne, president. I offer that in evidence.

Senator COUZENS. That may be entered.

(Mimeograph copy of letter on letterhead of the Detroit Bankers Co., dated Nov. 21, 1931, addressed "To our stockholders" and bearing facsimile signature of John Ballantyne, president, was received in evidence, marked "Committee Exhibit No. 13, Jan. 25, 1934.")

Mr. PECORA. The letter last offered in evidence, or the copy of the letter last offered in evidence, marked "Exhibit 13" of this date, is a copy, you say, of the letter that was actually sent out to all stockholders of the Detroit Bankers Co.?

Mr. VERHELLE. I would say so; yes, sir.

Mr. PECORA. Do you know who prepared the first letter, that is, the draft which was not sent out and which has been marked as "Exhibit no. 12" of this date?

Mr. VERHELLE. I believe I did, sir.

Mr. PECORA. Who prepared the letter marked "Exhibit no. 13" which was sent out to the stockholders?

Mr. VERHELLE. The letter, no. 13, is substantially a copy of letter no. 12, with the addition of one paragraph.

Mr. PECORA. Who prepared it in the form in which it was sent out and in which it has been received in evidence?

Mr. VERHELLE. The change was made by Mr. Ballantyne, but I do not know who did the actual wording of it, who is responsible for the actual wording of the paragraph itself.

Mr. PECORA. The only change or difference between exhibit 12 and exhibit 13 is the inclusion in exhibit 13, which is a copy of the letter that was sent out, of what appears therein as the second paragraph; is that right?

Mr. VERHELLE. I believe that is correct, sir.

Mr. PECORA. And you believe that in all other respects exhibit 13 is the same as exhibit 12 in form?

Mr. VERHELLE. I could read them back and determine definitely.

Mr. PECORA. I will read Exhibit No. 12, the draft of the letter which was not sent out—

Senator COUZENS. And which was sent to Mr. Ballantyne for revision?

Mr. PECORA. Yes. [Reading:]

"To our Stockholders:

"The board of directors of the Detroit Bankers Company believe that greater progress in attaining the purposes of this company can be made by the consolidation of the Peoples Wayne County Bank and the First National Bank in Detroit, and accordingly have recommended the consolidation of these two institutions under the name of the First Wayne National Bank. To you as stockholders the results will be reflected in increased earnings for your company, and to you as customers in an improved and more convenient type of service. It is contemplated that this consolidation shall be effective on or about December 31, 1931. This will give Detroit, which is the fourth largest city in the United States, a bank commensurate with its importance.

"According to the latest published statements the resultant consolidated institution will be among the first ten in the country in resources and deposits.

"We trust that you will share the management's pride not in the size of the First Wayne National Bank, but in its usefulness to the community. The usual quarterly dividend has been declared to holders of record on December 21, 1931."

The letter marked as "Exhibit no. 13" in evidence reads as follows [reading]:

"To our Stockholders:

"The board of directors of the Detroit Bankers Company believe that greater progress in attaining the purposes of this company can be made by the consolidation of the Peoples Wayne County Bank and the First National Bank in Detroit, and accordingly have recommended the consolidation of these two institutions under the name of the First Wayne National Bank.

"The new bank will have a capital of \$25,000,000, surplus of \$25,000,000, and undivided profits in excess of \$7,000,000. It will have total deposits of approximately \$500,000,000 and total resources of approximately \$600,000,000.

"We have taken this occasion to make the needed charge-offs and to set up ample reserves. To you as stockholders the results will be reflected in economy of operation, and to you as customers in an improved and more convenient type of service.

"It is contemplated that this consolidation shall be effective on or about December 31, 1931. This will give Detroit, which is the fourth largest city in the United States, a bank commensurate with its importance.

"According to the latest published statements the resultant consolidated institution will be among the first ten in the country in resources and deposits. "We trust that you will share the management's pride, not in the size of the First Wayne National Bank, but in its usefulness to the community.

"The usual quarterly dividend has been declared to holders of record on December 21, 1931."

It is signed "John Ballantyne, president", and dated November 21, 1931.

The only differences that have been noted between these two letters, Mr. Verhelle, is the inclusion as entirely new matter in exhibit no. 13 of the second paragraph thereof, which gives the capital set-up of the new bank, and the following change in the phraseology of the third paragraph of the letter that was sent out, Exhibit No. 13, which corresponds in substance to the second paragraph of the draft of the letter, Exhibit No. 12, which was not sent out. That paragraph in the proposed, or draft letter, reads as follows:

"To you as Stockholders the results will be reflected in increased earnings to your company, and to you as customers in an improved and more convenient type of service."

In exhibit 13, which is the letter sent out, that reads as follows:

To you as sockholders the results will be reflected in economy of operation—instead of increased earnings to your company—

and to you as customers in an improved and more convenient type of service.

Which corresponds to the balance of the paragraph in exhibit 12.

Now, Mr. Verhelle, you produced these two exhibits in answer to my question as to whether or not there was given to the stockholders of the Detroit Bankers Co. any information showing that at the end of the year 1931 the financial condition of the company was not as good as it was at the end of the preceding year. Wherein do you see anything in either of these two exhibits, 12 and 13—or let us confine it to exhibit no. 13, which is the one that was sent to the stockholders, according to your testimony—which gives that information to the stockholders of the Detroit Bankers Co.?

Mr. VERHELLE. I am not quite sure that those letters were given to you in answer to that specific question.

Mr. PECORA. For what purpose, then, or in answer to what question, did you produce these letters?

Mr. VERHELLE. As an indication—at the time I produced them I thought I was producing them as an indication of some specific notice to the stockholders that changes were taking place. As to the actual condition of the Detroit Bankers Co. at the end of 1931 and 1930, it is my very definite opinion at the present time, which, of course, takes into consideration events that have since occurred—but as far as the statement to the effect that the Detroit Bankers Co. was not in as good shape at the end of 1931 as it was at the end of 1930 appearing in a letter sent the stockholders, of course, no such statement appears there and it would have been completely out of order in any statement at that particular time.

Mr. PECORA. Why would it have been out of order if it was the fact?

Mr. VERHELLE. Well, there are a great many and varied reasons.

Mr. PECORA. Give us the reasons that cause you to believe it would have been out of order to have sent out any letter or information to the stockholders which would have informed them that the condition of the company at the end of the year 1931 was not as good as it was at the end of the preceding year.

Mr. VERHELLE. One very good reason was that at that particular time we felt that we were climbing the hill and getting back out with this organization; that this organization was definitely coming out of the woods.

Mr. PECORA. Was the fact that you were coming out of the woods reflected by the reduction of \$23,000,000, approximately, in the capital assets of the company as compared with those capital assets in the preceding year?

Mr. VERHELLE. No, sir; not by that, but by other factors.

Mr. PECORA. Go ahead—what other factors?

Mr. VERHELLE. The first one would be, I presume the most important, the assurances which we had received that we had made a thorough job of housecleaning—

Mr. PECORA. Who gave you those assurances?

Mr. VERHELLE. The comptroller's representatives.

Mr. PECORA. Who?

Mr. VERHELLE. Mr. Leyburn.

Mr. PECORA. Did he give you those assurances?

Mr. VERHELLE. No, sir.

Mr. PECORA. Did you hear him give them to anybody else?

Mr. VERHELLE. No, sir.

Mr. PECORA. Did you ever see those assurances from him in writing addressed to anybody?

Mr. VERHELLE. Not that I can recall, sir.

Mr. PECORA. How do you know about the giving of those assurances?

Mr. VERHELLE. Principally because I was informed of the fact that Mr. Leyburn had stated that—

Mr. PECORA. Who informed you of that?

Mr. VERHELLE. Mr. John Ballantyne.

Mr. PECORA. Anyone else that you can recall?

Mr. VERHELLE. I cannot think of anyone just at this moment.

Mr. PECORA. Didn't you know, as the comptroller of the Detroit Bankers Co. during all of this time, Mr. Verhelle, that special dividends aggregating in amount $5\frac{1}{2}$ million dollars had been declared by certain of the units of the holding company to enable the holding company to meet its obligations during the year 1931?

Mr. VERHELLE. I would like to add to that question—I will answer the question. Yes; I knew that dividends had been declared of $5\frac{1}{2}$ million dollars.

Mr. PECORA. Special dividends?

Mr. VERHELLE. Special dividends, so that the holding company might meet the obligations which it had incurred in connection with this \$7,000,000 that has been the subject of so much discussion here.

Mr. PECORA. So long as you put it in that way, Mr. Verhelle, let me again ask you if it is not the fact, to your personal knowledge, that of those special dividends aggregating $5\frac{1}{2}$ million dollars, $1\frac{1}{2}$ million dollars was declared by the unit which paid it for the specific purpose of enabling the First National Co. to discharge an

obligation of about a million and a half which it owed to the First National Bank in Detroit? Is not that the fact, to your absolute knowledge?

Mr. VERHELLE. No, sir; it is not.

Mr. PECORA. Is not that the fact set forth in the resolution declaring that special dividend that was the subject of the examination of Mr. Long before this committee this morning, in your presence and hearing?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Why do you say that it would have been out of order to have sent out a report to the stockholders of the Detroit Bankers Co. showing that its condition at the end of the year 1931 was not as good as it was at the end of the year 1930?

Mr. VERHELLE. That question has such a broad answer that—

Mr. PECORA. I do not care how broad the answer is.

Mr. VERHELLE. It would have been disastrous to do a thing of that sort, because in the first place the truth of it would have been questionable. In the second place, to make a statement of that sort would have been certainly contrary to everything that everyone was attempting to do at that time, and that is to hold up the house, the general situation existing throughout the country.

Mr. PECORA. And in the effort to hold up the house do you think it was necessary to keep the stockholders of the Detroit Bankers Co., which is the house, I understand, you were trying to hold up—

Mr. VERHELLE. No, sir; I beg your pardon, sir. I qualified the statement and stated that the house referred to the general situation existing throughout the country.

Mr. PECORA. You said the truth of the statement to the effect that the financial condition of the Detroit Bankers Co. at the end of the year 1931 was worse than it was at the end of the year 1930, could be questioned. You yourself have admitted here this afternoon that it was the truth that at the end of the year 1931 the financial condition of the Detroit Bankers Co. and its units was not as good as it was at the end of the preceding year, so how could the truth of it be questioned?

Mr. VERHELLE. Because my admission was based upon facts now in my possession, since the closing of this bank, whereas I referred to that statement as of the end of that particular year, and the knowledge then in my possession.

Mr. PECORA. You know now that the knowledge in your possession enables you to assert that the financial condition of the company at the end of 1931 was worse than it was at the end of the preceding year, do you not?

Mr. VERHELLE. The knowledge now in my possession; yes, sir.

Mr. PECORA. Did you not have substantially that same knowledge when you gave Mr. Ballantyne the figures that were embodied by him in his annual report to the stockholders for the year 1931?

Mr. VERHELLE. No, sir.

Mr. PECORA. Didn't you have knowledge at that time that the capital assets of the Detroit Bankers Co. had been reduced by over 23 million dollars at the end of 1931, from what they were at the end of 1930?

Mr. VERHELLE. From what they were listed at in the figures that were on the books of these different units.

Mr. PECORA. And didn't that indicate a worse financial condition than existed at the end of the year 1930?

Mr. VERHELLE. Not in itself, sir.

Mr. PECORA. You said it would have been disastrous to have told the stockholders of the group that the financial condition of the company at the end of 1931 was worse than it had been the year before. That would have been disastrous to whom?

Mr. VERHELLE. To the whole country; and furthermore, it would have been a very questionable item, a very questionable statement, because we had the rather very definite feeling that we had there one of the very strongest banks in the country.

Senator COUZENS. Why did you write down your assets about 19 million dollars at that time?

Mr. VERHELLE. In order to state them at conservative values, in order that the assets might in some measure represent the figures which were covered by the statement.

Senator COUZENS. That being the fact, then, that showed the difference between the end of 1930 and the end of 1931, did it not?

Mr. VERHELLE. No, sir.

Mr. PECORA. Were the figures false at the end of 1930, then?

Mr. VERHELLE. No, sir.

Senator COUZENS. Why did you write down 19 million dollars in that period of years if both figures were true?

Mr. VERHELLE. It is purely a question of judgment as to the value at which an asset should be stated in a report.

Senator COUZENS. But your judgment was that the value of the assets at the end of 1931 was some 19 million dollars less than it was in 1930, is that true?

Mr. VERHELLE. Than reflected in the figures——

Senator COUZENS. Is that true, that your judgment was——

Mr. VERHELLE. I did not quite understand your question.

Senator COUZENS. You said these assets were valued as a matter of judgment, and your judgment was that at the end of 1931 the assets were worth some 19 million dollars less than they were at the end of 1930. Is that true?

Mr. VERHELLE. Than various examiners might have thought they were worth at the end of 1930.

Senator COUZENS. You gave these figures to Mr. Ballantyne. What did you think? Did you agree with the examiners?

Mr. VERHELLE. I believe in substance I did, substantially.

Senator COUZENS. Then your answer to my question is yes, that you thought the assets were worth some 19 million dollars less at the end of 1931 than they were at the end of 1930.

Mr. VERHELLE. No, sir; it is not.

Senator COUZENS. You had better read your testimony over, because you are falsifying, and subject to contempt of the Senate.

Mr. VERHELLE. I do not understand your question, sir, then, if that is the case.

Senator COUZENS. You at one time said that you were in substantial agreement with the examiners, and therefore you wrote down the assets at the end of 1931 some 19 million dollars less than they were in 1930, at the end of 1930. I asked you if that was not in substantial

agreement with your judgment, and you said yes. Then I asked whether or not, in your judgment, the assets were not worth some 19 million dollars less at the end of 1931 than they were worth in 1930, and you said no.

Mr. VERHELLE. Your question, as I understood it, was just a trifle different than it is worded now.

Senator COUZENS. Well, take it as I have worded it now, then.

Mr. VERHELLE. Than they were in 1930, on the books of those units.

Senator COUZENS. Yes.

Mr. VERHELLE. The answer is yes, they were.

Senator COUZENS. They were worth less?

Mr. VERHELLE. They were worth substantially less than they were worth according to the figures represented.

Senator COUZENS. Yes; and those figures were in accordance with your judgment.

Mr. VERHELLE. For 1930? No, sir. I had nothing to do with that.

Senator COUZENS. I am talking about 1931.

Mr. VERHELLE. In 1931 I substantially agreed with the figures of the examiners.

Senator COUZENS. So that, in effect, you substantially agree that the assets at the end of December 1931 were worth some 19 million dollars less than they were December 30, 1930?

Mr. VERHELLE. Not than they were worth in 1930.

Senator COUZENS. Than they were valued at.

Mr. VERHELLE. Than they had been carried on the books at in 1930.

Senator COUZENS. Yes.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Mr. Verhelle, was any estimate made by anybody connected with the Detroit Bankers Co. at any time during the year 1931 of the approximate amount of the losses that had been sustained due to various causes, including depreciation of value of securities?

Mr. VERHELLE. Including what? Will you read the last part of that question?

(The reporter read the pending question.)

Mr. VERHELLE. 1932, you said?

Mr. PECORA. No; I said 1931. The stenographer has it right.

Mr. VERHELLE. I believe I made such an estimate.

Mr. PECORA. What was the amount of the estimate of those losses which you made?

Mr. VERHELLE. I think it was substantially in accordance with the examiner's estimate.

Mr. PECORA. What was the amount?

Mr. VERHELLE. I do not recall the amount, sir.

Senator COUZENS. Can you estimate it? Can you estimate the amount?

Mr. VERHELLE. I would have to base it on the amount which the examiner reported.

Mr. PECORA. What examiner are you referring to?

Mr. VERHELLE. All the examiners, I should say.

Mr. PECORA. What examiners are you referring to now?

Mr. VERHELLE. The national banking department examiners and—well, the thing would be very hazy on my part, because it involved a large number of examiners, and these examinations involved a large number of units.

Mr. PECORA. You mean by the examiners, the gentlemen who examined for the Comptroller of the Currency, the national bank units, and the gentlemen who examined for the State Banking Commissioner of Michigan, the State bank units?

Mr. VERHELLE. Yes, plus, probably, some of our own examiners.

Mr. PECORA. See if you can recall approximately the amount of the losses that were estimated in the year 1931 to have been sustained, whether it be your independent estimate or whether it be your estimate in agreement with the estimates of these examiners that you speak of.

Mr. VERHELLE. I am sorry, sir, but I could not do that.

Mr. PECORA. You could not do it. Let us see if I cannot refresh your recollection a bit. You know, do you not, that it was legally required of the Detroit Bankers Co., under the laws of the State of Michigan, to file with the Michigan Securities Commission an annual report?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And you know that such an annual report was filed for the year 1931?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. In behalf of the Detroit Bankers Co.?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Did you prepare that report?

Mr. VERHELLE. I did not personally prepare it, sir, but it was prepared in the Detroit Bankers Co. by one of the men there.

Mr. PECORA. Did you have anything to do with the preparation or furnishing of the data embodied in that report?

Mr. VERHELLE. Personally?

Mr. PECORA. Yes.

Mr. VERHELLE. I seriously doubt it, sir.

Mr. PECORA. You seriously doubt whether you did or not?

Mr. VERHELLE. Whether I personally furnished any data in connection with the preparation of that report. I presume it was made out by just going through the books.

Mr. PECORA. By your subordinates?

Mr. VERHELLE. I presume so.

Mr. PECORA. Without any approval by you?

Mr. VERHELLE. I probably looked at it to see if it was substantially correct, although I am not certain of that. It would depend upon what report you are speaking of, which year.

Mr. PECORA. I am speaking of the year 1931, and I have so stated.

Mr. VERHELLE. I think that the 1931 report was prepared by the treasurer of the company, if it is in writing. I can tell—

Senator COUZENS. Were those figures taken from the books of the Bankers Co.?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. You had charge of the books as comptroller, did you not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. I show you what purports to be photostatic copy of the annual report for the year 1931 filed with the Michigan Securities Commission by or on behalf of the Detroit Bankers Co. Will you look at it and tell me if you recognize it to be a true and corrected copy of such a report? [Handing paper to the witness.]

Mr. VERHELLE. I would say yes, sir.

Mr. PECORA. I offer it in evidence.

Senator COUZENS (presiding). It may be entered without being spread on the record.

(Copy of annual report, 1931, filed with Michigan Securities Commission by Detroit Bankers Co. was received in evidence, marked "Committee Exhibit No. 14, Jan. 25, 1934", and the same is not to be printed here for the reason stated above.)

Mr. PECORA. In this annual report, a copy of which has just been received in evidence as Committee's Exhibit No. 14 of this date, the following item appears [reading]:

Decrease in investments \$22,015,428.74.

Do you notice it? Have you a copy of this report before you?

Mr. VERHELLE. I was trying to see whether I had one.

Mr. PECORA. In the lower left-hand side of the front page, Mr. Verhelle.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You have every reason to believe that that was a correct item, have you not?

Mr. VERHELLE. I have every reason to believe that this is correct; yes, sir.

Mr. PECORA. Does that indicate to you that it was correctly reported to the Michigan Securities Commission by the Detroit Bankers Co., through the medium of this report, that during the year 1931 the company had suffered a decrease in the value of its investments amounting to \$22,015,428.74?

Mr. VERHELLE. It had taken that decrease. That decrease represents the decrease that we have been discussing, as you know.

Mr. PECORA. Won't you please answer my question? Read the question.

(The reporter read the pending question.)

Mr. VERHELLE. I would not know, sir, without studying this a bit. I am sorry. I did not make up this report, sir.

Mr. PECORA. I did not either. You were the comptroller, not I.

Senator COUZENS. You are an officer of one of the new banks, are you not?

Mr. VERHELLE. I am; yes, sir.

Would you please read that question again?

(The reporter read as follows:)

Mr. PECORA. Does that indicate to you that it was correctly reported to the Michigan Securities Commission by the Detroit Bankers Co., through the medium of this report, that during the year 1931 the company had suffered a decrease in the value of its investments amounting to \$22,015,428.74?

Mr. VERHELLE. No, sir.

Mr. PECORA. What does that item indicate to you?

Mr. VERHELLE. That item would, off-hand, indicate to me that the \$22,000,000 represents a reduction in invested capital of the units

owned by the Detroit Bankers Co., as differentiated from a decrease in the value of those actual securities. Inasmuch as the values of securities are not purely those of book value, these figures representing purely book value, it would not affect the actual value, and certainly did not affect the actual value as indicated by this particular figure here.

Mr. PECORA. Do you notice, Mr. Verhelle, that this item of \$22,015,428.74 is denominated in this annual report filed with the Michigan Securities Commission as "decrease in investments"? You note that, do you not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Do you note further that it is one of the items appearing in the statement of profit-and-loss account shown in this report?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Does not that indicate to you, looking at this report in the form in which it appears, that according to this report the Detroit Bankers Co. sustained a loss of \$22,015,428.74 during the year 1931 through decrease in the value of its investments?

Mr. VERHELLE. It indicates to me that an unfortunate——

Mr. PECORA. Can you answer the question yes or no?

Mr. VERHELLE. No, sir.

Mr. PECORA. Why not?

Mr. VERHELLE. Because the figure represents, I presume, the difference between the invested capital structure as of the beginning of the year, and as of the end of the year, and that figure would not and should not be considered as a loss.

Mr. PECORA. Why is it included in the profit and loss statement if it should not be regarded as a loss?

Mr. VERHELLE. That question will have to be put to Mr. Lewright.

Mr. PECORA. Why to Mr. Lewright and not to you?

Mr. VERHELLE. Because I do not know.

Mr. PECORA. You were the comptroller of the company.

Mr. VERHELLE. Yes; but the comptroller——

Mr. PECORA. And had charge of these records and accounts, didn't you?

Mr. VERHELLE. This particular report was prepared by the treasurer of the company, who had really charge of the preparation of this report.

Mr. PECORA. I thought you said before that the data embodied in this report were furnished by subordinates of yours, and you looked them over.

Mr. VERHELLE. I generally did; yes, sir.

Mr. PECORA. Did you in this instance?

Mr. VERHELLE. I would not be sure, sir.

Mr. PECORA. Let us see if I can refresh your recollection further or by other means as to the amount of loss it was estimated the Detroit Bankers Co. sustained during the year 1931, to your knowledge. Do you recall submitting a memorandum to Mr. Ballantyne sometime in March 1932 that contained a reference to the losses estimated sometime during the preceding year?

Mr. VERHELLE. No, sir.

Mr. PECORA. I show you what purports to be a photostatic reproduction of such memorandum, dated March 7, 1932, and addressed to

Mr. John Ballantyne, signed by the comptroller, having the initials "J.F.V." at the end of the memorandum on the left-hand side. Tell me if you recognize it to be a true and correct copy of a memorandum which you prepared and gave to Mr. Ballantyne on that date.

Senator COUZENS. That appears to be one of the memorandums that was not extracted from the files of the Detroit Bankers Co.

Mr. VERHELLE. I seriously doubt if I sent that memorandum, sir, for the reason that I am in the habit of initialing my copies.

Mr. PECORA. Who prepared that?

Mr. VERHELLE. I dictated this.

Mr. PECORA. I offer it in evidence.

Senator COUZENS (presiding). It may be entered.

(Memorandum Mar. 7, 1932, Verhelle to Ballantyne, was received in evidence and marked "Committee's Exhibit No. 15, Jan. 25, 1934.")

Senator COUZENS. Did you ever have any conferences with any representatives of the Department of Justice about the records of the Detroit Bankers Co.?

Mr. VERHELLE. Yes, sir. They have been over to see me a number of times requesting information as to where they could locate certain information.

Senator COUZENS. What have you told them during those conferences?

Mr. VERHELLE. I have told them that I left the Detroit Bankers Co. before the general smash-up in February, and I have generally pointed out to them where I would go to procure the particular type of information they were looking for, and that the files were left absolutely intact at the time I left there; that all of the information that belonged in those files was there; that is, all the information that should be there, and that belonged to the Detroit Bankers Co., was in those files at the time I left there.

Senator COUZENS. What other would be in the files that did not belong to the Detroit Bankers Co.?

Mr. VERHELLE. What other information would be in the files which did not belong to the Detroit Bankers Co.?

Senator COUZENS. Yes.

Mr. VERHELLE. Oh, I do not know that there would be anything.

Senator COUZENS. You qualified your statement awhile ago that everything was in the files of the Detroit Bankers that should have been there.

Mr. VERHELLE. I did not mean to qualify it with that interpretation at all, Senator.

Senator COUZENS. That is what you said. Now, in discussing this matter with any of the Department of Justice representatives, was there any question raised as to the memorandums of criticism that you sent to the several units?

Mr. VERHELLE. Yes, sir. On numerous occasions they asked for copies of this and copies of that, and I believe that a great many times I did not operate those files—

Senator COUZENS. You did not what?

Mr. VERHELLE. I did not operate the files, of course, but the party who operated them at that time went over there, and I think they found a considerable quantity of the material which they were looking for.

Senator COUZENS. In the discussions with these representatives of the Department of Justice, did you tell them at any time the kind of communications that you had sent to the unit banks belonging to the Detroit Bankers Co.?

Mr. VERHELLE. I may have. I don't specifically recall.

Senator COUZENS. You say you don't specifically recall. Do you recall any instances where you commented to Department of Justice representatives, on the kind of statements that you had sent to the several banking units?

Mr. VERHELLE. Yes; I think I did on numerous occasions. I think I just did it here on yesterday. It seems to me the question came up—and it is indicative particularly of the type of question that has been asked on numerous occasions—they asked me if I had any idea, asked me here yesterday, as to where they might find a certain letter that I spoke to them about, or that they had spoken to me about, regarding the \$750,000 in connection with the Pontiac bank. They said they had a wire from the man out there and wanted to know just where they should look for it.

Senator COUZENS. Did they tell you they could not find it in the files of the Detroit Bankers Co.?

Mr. VERHELLE. I think they did. Of course, there is one thing about the files of the Detroit Bankers Co., as I have indicated before: Approximately at the time I left there, and before that, the duties of persons with the Detroit Bankers Co. were materially changed, and the material, I understand and believe, was in large measure turned over to the particular individuals to whom those duties were assigned. There is a very considerable, or a large amount of that, of course.

Senator COUZENS. Do you mean that the memorandum which you had prepared, or the memoranda which you had prepared for the several units, copies of which you kept and placed in the files of the Detroit Bankers Co., were taken out of the files and delivered to someone else who had charge of the work? Is that what I am to understand from you?

Mr. VERHELLE. Well, I presume they would have removed them and taken them over to the particular places where they were working. But I could not tell you that. I would not know that, because I left there, severed my connection, and whatever happened to those files was not my affair.

Senator COUZENS. You have no record anywhere of these memoranda that you addressed to the several units?

Mr. VERHELLE. Well, there were literally hundreds of them, and, of course, I have no record of them. I just dictated one after another.

Senator COUZENS. In other words, there were hundreds of criticisms sent to those several units, and you filed them as you wrote them; is that true?

Mr. VERHELLE. Well, the term "criticisms" is not entirely in order.

Senator COUZENS. Well, what were they, if they were not criticisms?

Mr. VERHELLE. Well, criticisms and suggestions, or suggestions for changes, or things of that sort. You might term them recommendations of various kinds.

Senator COUZENS. Have you any of those in your possession?

Mr. VERHELLE. I have some; yes, sir.

Senator COUZENS. Where are they?

Mr. VERHELLE. I have some right here.

Senator COUZENS. Is that the only place where you have them, right here?

Mr. VERHELLE. I believe it is; yes, sir.

Senator COUZENS. And you have none anywhere else?

(Witness shakes his head.)

Senator COUZENS. Is your answer no?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. Will you submit to us those that you have here?

(The witness turns to his package of papers, looks at them, and then turns toward the attorney, Mr. Longley.)

Senator COUZENS. Do you have to get legal advice as to whether or not you will submit those papers?

Mr. VERHELLE. Well, I should like to ask a question, sir.

Senator COUZENS. Well, we desire them now, and if a subpoena is necessary we will issue one.

Mr. PECORA. Mr. Chairman, Mr. Verhelle is on the stand, and no subpoena is necessary.

Senator COUZENS (presiding). Then please submit them to the committee.

Mr. VERHELLE. These are copies, of course. [Handing to Mr. Pecora two files of papers].

Senator COUZENS. In other words, these are copies that you took out of the files of the Detroit Bankers Co., are they?

Mr. VERHELLE. No, sir.

Senator COUZENS. Then where did you get these copies?

Mr. VERHELLE. They were copies I made for myself, more or less. They were extra copies, I know that.

Senator COUZENS. When you made these extra copies what did you do with them?

Mr. VERHELLE. I stuck them in one corner of my desk, I believe.

Senator COUZENS. And then when you left the Detroit Bankers Co. you took them with you, is that correct?

(The witness turns to look through some other papers.)

Mr. PECORA. Mr. Verhelle, there is a question pending that has been addressed to you. Did you hear it?

Mr. VERHELLE. Well, I am trying to recall, sir. I wouldn't say that I took them with me at that time, sir.

Senator COUZENS. Then when did you take them?

Mr. VERHELLE. Well, some of them at one time and some at another time.

Senator COUZENS. After you left the service of the Detroit Bankers Co.?

Mr. VERHELLE. No; before I left the service.

Senator COUZENS. Is that all that you have in your possession?

Mr. VERHELLE. I have another file here.

Senator COUZENS. Will you submit that to Mr. Pecora?

Mr. VERHELLE. Here it is. [Handing to Mr. Pecora what seemed to be a bound volume.]

Mr. PECORA. Mr. Chairman, I ask that the committee reporter mark for identification each and every paper or document that has been produced by the witness.

Senator COUZENS. That will be done after the examination of the witness for the day has been concluded. And the committee reporter will see that they are kept intact, and mark them in order in which they are now submitted.

(The papers and documents turned over to the committee by the witness, Mr. Verhelle, were marked "Committee Exhibits for Identification, No. 16 to No. 96", both inclusive, and forwarded to Mr. Pecora at the Mayflower Hotel during the evening with the day's transcript of proceedings.)

Mr. PECORA. Now, Mr. Verhelle, to get back to the memorandum addressed to Mr. Ballantyne under date of March 7, 1932, which you have said you dictated, and which has been received in evidence as Committee Exhibit No. 15. I want to call to your attention the opening statement in this memorandum, reading as follows:

Mr. JOHN BALLENTYNE,
President Detroit Bankers Co.:

During October 1931 we estimated total losses at \$48,793,000—

Who estimated those total losses at that figure?

Mr. VERHELLE. Well, I seriously question that letter, sir, because—well, I would like to refresh my memory on it. I could not particularly recall it when I read it here. It was rather strange to me.

Mr. PECORA. Why, after you read it you said, while you were under oath here, that you dictated it.

Mr. VERHELLE. I did, sir.

Mr. PECORA. All right. Now, when you dictated it what had you in mind as the thing to which you referred when you stated in this memorandum:

During October 1931 we estimated total losses at \$48,793,000.

Mr. VERHELLE. I presume that what I had in mind when I dictated that was that that was an estimate of the total amount that might be considered as losses.

Mr. PECORA. Sustained by the Detroit Bankers Co. and its various units?

Mr. VERHELLE. And all the units; yes, sir.

Mr. PECORA. Do you know why no mention whatsoever was made of those losses in the annual report sent to the stockholders of the Detroit Bankers Co. for the year 1931?

Mr. VERHELLE. Well, those losses were corrected, sir.

Mr. PECORA. What was that answer?

Mr. VERHELLE. Those losses were corrected.

Mr. PECORA. When were they corrected?

Mr. VERHELLE. By the adjustment of the invested capital, earnings, and so forth, of those units.

Mr. PECORA. When were they corrected?

Mr. VERHELLE. During the course of—well, during the last week, I suppose, in December that would have been.

Mr. PECORA. During the last week of December 1931?

Mr. VERHELLE. I presume so; yes, sir.

Mr. PECORA. Are you sure of that?

Mr. VERHELLE. No; I am not sure that it would be during that week; but at least over a period of time about then.

Mr. PECORA. Are you sure that those losses were corrected?

Mr. VERHELLE. Not particularly these losses, because the question of losses is entirely a matter of judgment.

Mr. PECORA. Who made this estimate that you referred to in this memorandum?

Mr. VERHELLE. I presume I made it, sir.

Mr. PECORA. You made it?

Mr. VERHELLE. Yes, sir; I presume so.

Mr. PECORA. Then some time in October of 1931 you made an estimate which showed that the total losses of the Detroit Bankers Co. and its unit aggregated over \$48,000,000?

Mr. VERHELLE. I would presume that I did.

Mr. PECORA. What was the occasion for your reminding Mr. Ballantyne of that in March of 1932?

Mr. VERHELLE. I should like to read the whole memorandum and make myself clear on the whole occasion.

Mr. PECORA. Haven't you read the whole memorandum?

Mr. VERHELLE. No, sir; I did not. I just glanced through it. May I read it now, please?

Mr. PECORA. All right. Here it is.

(After reading it, the witness returned the paper to Mr. Pecora.)

Mr. PECORA. Now, Mr. Verhelle, can you answer the question after having read Committee Exhibit No. 15?

Mr. VERHELLE. Well, I have just this recollection of that particular memorandum, that I think there are subsequent memoranda to that; and the two memoranda mentioned in there I recall specifically, and—

Mr. PECORA (interposing). What is that?

Mr. VERHELLE. There are two memoranda mentioned in this particular memorandum, which I recall specifically, and which are recommendations in there. It is my recollection that that particular memorandum was, in my mind, rather incomplete at the time and that I wanted to make an analysis of my own, and an inspection, or examination rather, of my own before making any commitment as to what those losses definitely were, because I felt I was too far away from what others definitely believed and presumed to be the situation.

Mr. PECORA. Now, Mr. Verhelle, I want you to look very carefully at this memorandum marked "Committee Exhibit No. 15", and point out to me therein anything that is set forth in it which indicates what you have just said [handing the memorandum back to the witness].

Mr. VERHELLE. Well, one statement, for instance: "Losses on mortgages on land contracts, \$5,000,000." That would require a little substantiation.

Mr. PECORA. Just read into the record anything in that memorandum that is the basis for the answer you have made.

Mr. VERHELLE. The figures in "Additional losses on loans, 8½ million dollars", are entirely too general a statement. So are the figures in "Mortgages on land contracts." And so is the statement "Our requirements at this time are approximately \$40,000,000."

Mr. PECORA. Now, what did you mean by that statement in that memorandum, which is dated March 7, 1932:

Our requirements at this time are approximately \$40,000,000.

Mr. VERHELLE (looking over the paper again). I do not recall, sir. I think that is probably one of the reasons——

Mr. PECORA (interposing). You do not recall what you meant by something you wrote?

Mr. VERHELLE. But did not send.

Mr. PECORA. Do you mean to say that you never sent it?

Mr. VERHELLE. It does not look like it.

Mr. PECORA. Do you mean to say you never sent that to Mr. Ballantyne?

Mr. VERHELLE. I seriously question it. I don't know.

Mr. PECORA. I wish you would carefully search your mind, Mr. Verhelle, and make an effort to tell us about that.

Senator COUZENS. You are not trying to protect Mr. Ballantyne because he is your superior officer, are you?

Mr. VERHELLE. Senator Couzens, I have never done anything but state the truth on any question.

Senator COUZENS. Well, you may sometimes state the truth and yet not all the truth.

Mr. VERHELLE. What was that?

Senator COUZENS. I say, you may sometimes say the truth and yet not state all the truth. I am just recalling to you that when you took the oath here you said that you would tell all of the truth and not only a part of it.

Mr. VERHELLE. Well, that makes no difference to me, sir.

Mr. PECORA. Do you mean that the taking of the oath would make no difference to you?

Mr. VERHELLE. Oh, no. That I always tell the truth so far as the telling of the truth is concerned.

Mr. PECORA. All right. Now, did you tell the truth when you dictated that memorandum and stated, regardless of whether or not you sent it to Mr. Ballantyne, that in October of 1931 you estimated the losses of the company at over \$48,000,000?

Mr. VERHELLE. As to this memorandum, I question whether I used it or not.

Mr. PECORA. I did not ask you whether you used it or not. I asked you if it was the truth when you dictated that memorandum and stated in October of 1931 that the losses of the Detroit Bankers Co. and its units had been estimated at over 48 million dollars.

Mr. VERHELLE. As to a memorandum of this kind, when dictated and unless signed and used, it does not necessarily mean that it contains the true story, or anything of that sort, and there might be typographical errors in it, or any one of a thousand things.

Mr. PECORA. When you dictated that memorandum what did you dictate it for? What did you intend to do with it after it was transcribed?

Mr. VERHELLE. Well, at that particular moment when I dictated it I probably set down on paper my first thoughts, or something of that sort; or this might have been my second or third thoughts on it, and with the definite purpose in mind of accomplishing certain things.

Mr. PECORA. When you dictated that memorandum you started out by saying, in substance, in October of 1931 we estimated losses at 48 million dollars plus. Now, were you drawing upon your imagination when you dictated that statement on March 7, 1932?

Mr. VERHELLE. No, sir. I doubt very much if I was.

Mr. PECORA. Well, that was dictated by you as a statement of fact, wasn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, let me have that memorandum again, please.

Mr. VERHELLE. All right. [Handing the memorandum back to Mr. Pecora.]

Mr. PECORA. Now, when in this same statement or memorandum you dictated the following:

Our requirements at this time are approximately \$40,000,000.

What did you mean by it?

Mr. VERHELLE. I cannot recall that, sir.

Mr. PECORA. Well, you have been recalling a lot of things not so important as this.

Mr. VERHELLE. I know I have been recalling a lot of things, but—

Mr. PECORA (interposing). Why is it that you cannot recall this?

Mr. VERHELLE. I think I have done pretty well at recalling things.

Mr. PECORA. That is your opinion, anyway, isn't it?

Mr. VERHELLE. Yes, sir. Because I think I would recall a memorandum of that kind, and I just don't recall it.

Mr. PECORA. Well, you have recalled it. You testified here that you dictated it.

Mr. VERHELLE. Yes; because of the fact that this photostatic copy of memorandum with what is on it there at least now indicates that I dictated it. But that was not from memory but by the very fact of the memorandum itself. That was the basis for my statement to you.

Mr. PECORA. Don't you recognize your language in it?

Mr. VERHELLE. Yes, sir. That was another factor that caused me to say that.

Mr. PECORA. There isn't a shadow of a doubt in your mind, then, at this moment, that you dictated this memorandum, is there?

Mr. VERHELLE. There isn't a shadow of doubt about that, but whether I dictated it exactly that way, or whether there are any typographical errors in there, I wouldn't know.

Mr. PECORA. With that exception, there isn't a shadow of doubt in your mind that you dictated substantially what appears in this memorandum, is there?

Mr. VERHELLE. No, sir.

Mr. PECORA. Now, can't you search your memory and tell us what you meant by the statement in this memorandum [reading]:

Our requirements at this time are approximately \$40,000,000.

Mr. VERHELLE. Yes, sir; I think I could sit down and think it out.

Mr. PECORA. Please do so.

Mr. VERHELLE (taking up a writing pad as if to write on it and then stopping to think). What is that date, Mr. Pecora?

Mr. PECORA. March 7, 1932.

Mr. VERHELLE. Will you let me have that memorandum again?

Mr. PECORA. All right. Here it is.

Mr. VERHELLE (after some figuring and looking at the memorandum). I cannot reconcile the figures on this thing itself. They do not tie in or together there at all.

Mr. PECORA. What did you say?

Mr. VERHELLE. The figures on that memorandum do not tie in at all. I cannot reconcile them, one with another.

Mr. PECORA. You cannot reconcile the figures embodied in a memorandum which you prepared?

Mr. VERHELLE. I cannot reconcile them with themselves. They do not tie in.

Mr. PECORA. Well, that is because of the way you dictated it and prepared it, isn't it?

Mr. VERHELLE. Well, of course, it wasn't a finished article, or at least that would be my recollection of it.

Mr. PECORA. What was the finished article?

Mr. VERHELLE. Well, I would say it would have been much more full and complete than that.

Mr. PECORA. Can you produce the finished article, or any copy of it?

Mr. VERHELLE. No; I cannot, sir.

Mr. PECORA. Are you willing to swear that this memorandum was not the finished article?

Mr. VERHELLE. I could not swear that it was either, sir. In the first place, the figures do not reconcile with one another as they appear right on the statement itself. You really cannot make heads or tails out of it by analyzing it, and they do not tie together. In the second place, I am in the habit of putting my initials on copies of everything, and generally on all copies when I sign the original. That is the general way I have.

Mr. PECORA. That is the general way you have?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Let us take a look at some of the copies of memoranda you have produced here this afternoon.

Mr. VERHELLE. Those necessarily would not be file copies.

Mr. PECORA. Would not necessarily be what?

Mr. VERHELLE. File copies.

Mr. PECORA. Didn't you say that these were extra copies made, and that they were in the files in your desk?

Mr. VERHELLE. Not file copies, sir.

Mr. PECORA. What do you mean by "file copies" as distinguished from these copies?

Mr. VERHELLE. Well, a record of every piece of correspondence and communication, one copy goes in the files, and that copy——

Mr. PECORA (interposing). Where the copy bears your signature or your initials, does that mean that it is a file copy?

Mr. VERHELLE. No, sir. It means that it is an accurate copy of one I did sign.

Mr. PECORA. Well, why did you say that the file copies would show your signature or initials?

Mr. VERHELLE. If that original had been signed, when I signed the original I would have simultaneously signed at least one more copy.

Mr. PECORA. And would the signed copy have been the one for the files of the company?

Mr. VERHELLE. No; the signed copy would be the original, that is, with the full signature on it, and then I might either write my last name or the initials on the remaining copy or copies.

Mr. PECORA. Where a copy bears your signature—I am speaking of copy, not the original—does that mean that that copy was the filed copy as distinguished from the original?

Mr. VERHELLE. No, sir; not necessarily.

Mr. PECORA. What does it mean?

Mr. VERHELLE. It means that it was one of a number of copies that were made. It simply means that the original of that particular one was actually signed by me.

Mr. PECORA. And if the copy is unsigned that meant that the original also was unsigned?

Mr. VERHELLE. Generally speaking, I try not to make any exception to it. Occasionally I might sign a memorandum or a letter without having the copies right there to initial, but I, generally speaking, have for many years initialed the copies that were placed with the original document.

Mr. PECORA. I am going to ask you the same question again: Where a copy of a memorandum or communication prepared by you is unsigned does that indicate that the original also was unsigned by you?

Mr. VERHELLE. Not definitely, sir.

Mr. PECORA. What does it indicate?

Mr. VERHELLE. It does not indicate anything.

Mr. PECORA. It might indicate that either the original was signed or that the original was unsigned? Is that what you mean to say?

Mr. VERHELLE. It might indicate definitely that the original was not signed. That is one indication.

Mr. PECORA. What is another indication?

Mr. VERHELLE. Another indication might be that it was one of a large number of copies and at the time I had them I thought I had initialed enough of them or something of that sort.

Mr. PECORA. Then an unsigned copy might also be a copy of an original which was signed?

Mr. VERHELLE. It might.

Mr. PECORA. This copy that I have produced here today and which has been received in evidence as exhibit no. 15 is an unsigned copy, isn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That does not necessarily indicate, if I have correctly understood the testimony you have given in answer to the last few questions, that the original of this memorandum was also unsigned, does it?

Mr. VERHELLE. It does not prove it; no, sir.

Mr. PECORA. This might just as well be an unsigned copy of a signed original?

Mr. VERHELLE. Oh, it might be as far as that phase of it is concerned; yes.

Mr. PECORA. Do you know, Mr. Verhelle, who prepared the text of the report that was printed and sent to the stockholders of the Detroit Bankers Co. for the year 1931?

Mr. VERHELLE. The one we have been discussing, sir?

Mr. PECORA. The one that is in evidence here; yes.

Mr. VERHELLE. The text was probably prepared by me, but with the collaboration of Mr. Mark Wilson, and was submitted to the directors of the Detroit Bankers Co.—I would like to look at it and be sure that is it—(after examining document) and was submitted to the directors of the Detroit Bankers Co. and with certain suggestions approved by them.

Mr. PECORA. The text of the annual report for the year 1931 comprises $6\frac{1}{2}$ printed pages in the annual report for that year, which is marked in evidence here as "Committee's Exhibit No. 9", does it not?

Mr. VERHELLE. Yes.

Mr. PECORA. And those $6\frac{1}{2}$ printed pages are not closely written or printed, are they?

Mr. VERHELLE. No, sir.

Mr. PECORA. So that the text is very brief and concise, isn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And your recollection is you prepared the text of this report?

Mr. VERHELLE. It is my recollection that I made the draft of it.

Mr. PECORA. Is it your recollection that that draft underwent revision at anybody else's hands before it was signed by Mr. Ballantyne and printed and sent to the stockholders?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Who revised it?

Mr. VERHELLE. Well, I know that the names included therein were added to the original draft, for instance.

Mr. PECORA. The names of a certain committee, members of a certain committee?

Mr. VERHELLE. Yes, sir. I am not sure but that that was done by the governing committee, rather than by the board of directors of the Detroit Bankers Co.

Mr. PECORA. In any other sense was the text of the report as drafted by you changed or revised by anyone before it was printed and sent to the stockholders?

Mr. VERHELLE. I have an idea that it was, sir, but I cannot point it out.

Mr. PECORA. You cannot point out the change even?

Mr. VERHELLE. No.

Mr. PECORA. If any was made?

Mr. VERHELLE. No.

Mr. PECORA. Do you recognize any change in your language?

Mr. VERHELLE. I recognize that particular one. I recall that one specifically.

Mr. PECORA. That change, as you have already indicated, merely consisted of the inclusion of the names of the members of a so-called "governing committee" which had been appointed during the year 1931, did it not?

Mr. VERHELLE. Yes, sir. Well, in the preparation of one of these reports you get a very large number of suggestions, and you get them from various officers and directors. They all make some comment and make some suggestion, and those after all enter into it, and it is the combined suggestions of a very large number of people that are represented.

Mr. PECORA. Then is it correct to say that the text of this report was prepared by you with the exception of the inclusion of the names of that committee that appears in it, but that it represents and embodies suggestions made to you by other persons with respect to the substance or content of the report?

Mr. VERHELLE. I would say yes, sir.

Mr. PECORA. That is correct?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. What other persons suggested to you or made any suggestions to you concerning the report that should be prepared and sent to the stockholders for the year 1931, which suggestions were adopted by you in the actual wording of the report?

Mr. VERHELLE. I could not say, sir, because I could not say who made the suggestions and I could not say whether they were adopted or not, and it is a difficult thing. The stockholders' report starts out in the beginning or middle of December, and I discuss it on and off and make mention of the fact that in our next report we might say this, that, or something else, and then the thing is forgotten and maybe thrown in the waste—maybe I threw 2 or 3 drafts of this in the wastebasket, revised it, and changed it.

Mr. PECORA. You have already testified that certain losses incurred during the year 1931, amounting to millions of dollars, were not set forth in this report; is that right?

Mr. VERHELLE. No, sir.

Mr. PECORA. You have not testified to that?

Mr. VERHELLE. To the best of my knowledge, I did not testify to that.

Mr. PECORA. In this report it is made to appear that the net operating income for the year 1931 was seven-odd million dollars, equal to \$4.21 a share on the outstanding shares of the capital stock; is that right?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. The earnings for 1930 are stated in this report for 1931 to have been equal to \$4.14 a share; is that right?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. It has been testified to here, I believe by Mr. Ballantyne, today that one reading this report would infer that the business of the company during the year 1931, as well as of its units, was more profitable than it had been during the year 1930. Do you recall such testimony?

Mr. VERHELLE. Well, not specifically those words, but I would say in substance.

Mr. PECORA. Not in those words, but in substance to that effect?

Mr. VERHELLE. I would say in substance that the operating income per share was greater in 1931 than in 1930.

Mr. PECORA. And that would cause the average reader of this report to conclude or infer that the business of the company was more profitable in 1931 than it has been in 1930, as well as the business of its business associates?

Mr. VERHELLE. I would be unable to determine what the average reader would contemplate or guess by reading that.

Mr. PECORA. What occasion was there for telling the stockholders in the report for 1931 what the earnings per share were for 1930?

Mr. VERHELLE. I don't recall.

Mr. PECORA. Whether you recall or not, can't you tell what the reason was, as you sit there with a copy of the 1931 report prepared by you before you?

Mr. VERHELLE. Well, I know what it does to the statement. It places a comparable figure against it.

Mr. PECORA. And shows higher earnings per share in 1931 than in 1930?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Yes. And wasn't that done for the express purpose of conveying the impression to the stockholders reading this report for 1931 that the company and its units in 1931 had done business more profitably than they had in 1930?

Mr. VERHELLE. My own recollection of it—and I have tried to recall—as to the purpose of the inclusion of that paragraph—

Mr. PECORA (interposing). It is not a paragraph; it is a sentence.

Mr. VERHELLE. I mean that whole sentence, and I would like to refer when I say this to not only that one sentence but the sentence preceding it, because the two must necessarily go together when speaking of comparison.

Mr. PECORA. Yes.

Mr. VERHELLE. That just preceding the circulation of this report headlines had appeared in the newspapers and in magazines to the effect that losses of 26 million dollars had been taken by the Detroit Bankers Co. A considerable amount of publicity was had in connection with the write-offs that took place, and in many cases the figures quoted were in excess of the actual amount, I believe.

In any event, we had two propositions to deal with: One was the assets and their value, and the other was the earnings. And, while it was true that we had taken large write-offs—

Mr. PECORA (interposing). Amounting to how much during the year?

Mr. VERHELLE. Oh, my offhand recollection is 23 to 26 million dollars, something like that.

Mr. PECORA. Twenty-three to twenty-six million dollars?

Mr. VERHELLE. Something like that.

Mr. PECORA. So that newspaper headlines were not at variance with the fact, were they?

Mr. VERHELLE. I remember seeing in one magazine a figure that was completely off.

Mr. PECORA. To what extent?

Mr. VERHELLE. Oh, 20 million dollars.

Mr. PECORA. What magazine was that?

Mr. VERHELLE. I don't recall that, because I have often tried to get it since.

Mr. PECORA. You haven't a copy of it now?

Mr. VERHELLE. No, I have not.

Mr. PECORA. And you don't recall the name of the magazine?

Mr. VERHELLE. No, sir.

Mr. PECORA. Do you recall the author of the article contained in the magazine?

Mr. VERHELLE. No, I do not. I just recall seeing the headline and seeing the magazine lying on someone's desk and seeing the First National write-off.

Senator COUZENS. Where did they get these figures from that they published?

Mr. VERHELLE. Well, I suppose they get some of them from brokers' offices. The majority of them were correct—the majority of them. The principal trouble was that some of them published figures prior to the time that this merger was actually announced, I think.

Senator COUZENS. So these figures showing the increased earnings in 1931 over 1930 were given for the purpose of offsetting that publicity; is that so?

Mr. VERHELLE. Not exactly; no, sir. It is anyone's guess as to what should go in an annual report.

Mr. PECORA. No, it is not a guess; it is somebody's judgment.

Mr. VERHELLE. It is somebody's judgment, different peoples' judgment, and they are all different.

Mr. PECORA. What was your judgment when you prepared this report?

Mr. VERHELLE. That this report was accurate and honest.

Mr. PECORA. And gave the stockholder who read it a true, accurate, and honest picture of the actual facts, did it?

Mr. VERHELLE. Yes.

Mr. PECORA. You are sure of that?

Mr. VERHELLE. Yes.

Mr. PECORA. And you wrote it for the purpose of giving only a true and accurate picture to the stockholder who read this report?

Mr. VERHELLE. Wrote it because an annual report had to be made, and bearing definitely in mind the depositors themselves, who were above all the first consideration.

Mr. PECORA. That does not answer my question.

Mr. VERHELLE. Then the answer to the question is no.

Mr. PECORA. Oh, then you did not intend that this report should represent a true and accurate picture?

Mr. VERHELLE. Oh, yes; absolutely.

Mr. PECORA. You just said the answer was no.

Mr. VERHELLE. I did not understand that to be your question.

Mr. PECORA. When you wrote this report did you phrase it in a manner calculated and intended to give the stockholders of the Detroit Bankers Co. a true and accurate picture?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. In giving them that true and accurate picture you intended also that the picture should be complete in order to be true and accurate, didn't you?

Mr. VERHELLE. As to its completeness, I intended to make it as complete and full as practical, because to make a complete report would involve many more pages than this, and when you get all through with that type of a complete report you generally have nothing at all, because figures themselves do not mean very much.

Mr. PECORA. So that a complete report means nothing at all, but an incomplete report means everything—is that your logic?

Mr. VERHELLE. No. I say that it would be impossible almost. It would for me, anyway.

Mr. PECORA. But was it your intention, in preparing this annual report for the stockholders of the Detroit Bankers Co. for the year

1931, to give those stockholders not only a true and accurate report but a completely true and accurate report?

Mr. VERHELLE. I believe it was.

Mr. PECORA. In other words, did you intend that the stockholders should know the truth and the whole truth about the condition of the company at the end of the year 1931?

Mr. VERHELLE. I believe it was; yes, sir.

Mr. PECORA. Now, you have said that there had been write-offs made during the year amounting to approximately 26 million dollars, have you not?

Mr. VERHELLE. Twenty-three to twenty-six.

Mr. PECORA. Twenty-three to twenty-six. I will take the lower figure, 23 million dollars. I will give the 3 million dollars edge. Wasn't it important in your opinion for the stockholders in the company to know that?

Mr. VERHELLE. We had already indicated it.

Mr. PECORA. In what?

Mr. VERHELLE. By quoting to them in this stockholders' letter of which I gave you a copy, that by giving the new invested capital of the bank, and also by indicating in there that substantial charge-offs were being made during the current year, and furthermore no stockholder can possibly analyze any kind of a statement without making a comparison. A statement is not complete unless it consists of three separate things, and unless they are all there, why—

Mr. PECORA. Show me in this letter marked "Exhibit No. 13", which is the letter you refer to in the answer you have just made, anything at all which tells the stockholders a single word concerning the write-off of 23 million dollars during the year 1931.

Mr. VERHELLE. Not about the 23 million, sir. I cannot do that.

Mr. PECORA. Why did you say, in answer to my question, that the reason the statement concerning that 23 million dollar write-off was not embodied in the annual report was because it had already been given in that letter?

Mr. VERHELLE. Well, I should have said in the newspapers, I presume.

Mr. PECORA. Oh, you should have said in the newspapers. Were you depending on the newspapers to make the annual report to your stockholders?

Mr. VERHELLE. I took it into consideration, sir.

Mr. PECORA. What?

Mr. VERHELLE. What the newspapers had already written up.

Mr. PECORA. You told us a few minutes ago that you were desirous of avoiding implications that arose from the newspaper headlines and from these magazine articles.

Mr. VERHELLE. The newspapers were able to figure out the exact amount after that letter went out.

Mr. PECORA. Were they?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. After this letter, exhibit 13, went out?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. The newspapers were able to figure out the amount of write-offs of at least 23 million dollars?

Mr. VERHELLE. Well, I don't recall the amount which they figured out at that particular time, because I don't believe that—

Mr. PECORA (interposing). You are an accountant, are you not?

Mr. VERHELLE. No, sir.

Mr. PECORA. You understand accountancy?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You have had technical education in accountancy?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. All right. Will you take that letter and tell me from any statement contained in it the amount of write-offs you could deduce had been made by the Detroit Bankers Co. and its units?

Mr. VERHELLE. The first thing I would do would be to say here the new bank will have a capital of 25 million, a surplus of 25 million, and undivided profits in excess of 7 million, and would immediately proceed to obtain a statement of these two institutions prior to this consolidation.

Mr. PECORA. Oh, you would get something other than what is shown in that letter?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. What do you intend that your stockholders should do when they get your annual report; send for a lot of other data and make a study and comparison of the annual report with some other data? Is that what you intended the stockholders should do in order to acquaint themselves with the full and complete situation?

Mr. VERHELLE. No, sir. I expected the stockholders to go to their files and pick out the last report and compare this one with the last one.

Mr. PECORA. That is what you expected the stockholders to do?

Mr. VERHELLE. That is what the stockholder normally does, I believe.

Mr. PECORA. Suppose a stockholder did not have a copy of the annual report for the preceding year because he had not been a stockholder during the preceding year; what was that stockholder to do?

Mr. VERHELLE. He could get a copy, sir.

Mr. PECORA. Well, were these reports prepared with that in mind?

Mr. VERHELLE. I believe that all stockholders——

Mr. PECORA (interposing). Were your reports prepared with that in mind?

Mr. VERHELLE. Oh, yes. We took that into consideration.

Mr. PECORA. In other words, that report would not give the stockholder a complete and full picture of the condition of the company for the year in which the report was made in and by itself?

Mr. VERHELLE. No, sir; not with that in mind, not having in mind that it would not give a complete statement, but knowing that no stockholders' statement, unless it contained comparative statement of condition over a period of time, together with profit-and-loss statements, together with a reconciliation of the invested capital structure, gives a complete statement of condition. On top of that there is needed and necessary, in order to analyze the statements themselves, complete data regarding the particular assets.

Mr. PECORA. There is needed what?

Mr. VERHELLE. There is needed knowledge or information regarding the assets themselves behind the actual figures. I mean all of

those things have to be known in order to be able to determine indefinitely what the entire situation is.

Mr. PECORA. Then for a stockholder to get the knowledge of the whole picture from these annual reports he would have to be an accountant or understand accountancy, would he not?

Mr. VERHELLE. To get the——

Mr. PECORA. To get the whole picture.

Mr. VERHELLE. Well, "the whole picture" is an indefinite article.

Mr. PECORA. To get the whole picture concerning the condition of his company as the picture was represented to him by the annual report?

Mr. VERHELLE. I doubt if even a certified public accountant could take the average stockholders' report or group of reports and arrive at any definite conclusion as to the true picture or the whole picture of any corporation, because I think it would be rather difficult to set up such a report.

Mr. PECORA. It was the known fact, that is, known to you, that during the year 1931 the Detroit Bankers Co. and its units had written off at least 23 million dollars?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Why could not a simple sentence stating that be included in the annual report to the stockholders? Is there any physical reason why it could not be included in there?

Mr. VERHELLE. No physical reasons.

Mr. PECORA. Why wasn't it included then?

Mr. VERHELLE. There are quite a number of reasons why it would not have been advisable to include it. In fact, I doubt if——

Mr. PECORA (interposing). Let us take the reasons in order. You say there are quite a number. Let us number them. Reason 1 is what?

Mr. VERHELLE. Reason no. 1 is that indication had already been given that there were reductions in the——

Mr. PECORA (interposing). Are you now referring to indications in this letter marked "Exhibit No. 13"?

Mr. VERHELLE. That is no. 1, sir.

Mr. PECORA. Show me what write-off is indicated by that letter.

Mr. VERHELLE. I have to have the other report in order to do it.

Mr. PECORA. Show me the write-off indicated by that letter, can you?

Mr. VERHELLE. It indicates that there is a write-off.

Mr. PECORA. Show me the amount of the write-off, if there is one, indicated by that letter.

Mr. VERHELLE. I cannot by just that letter.

Mr. PECORA. All right; now give reason No. 2.

Mr. VERHELLE. I probably do not understand the question. May I have the question?

Mr. PECORA. You answered it before.

Mr. VERHELLE. Well, that is not the reason.

Mr. PECORA. You said there are a number of reasons why the simple statement was not inserted or included in the report to the stockholders for the year 1931 to the effect that during that year the company and its units had made write-offs of \$23,000,000.

Mr. VERHELLE. And that was my reason No. 1.

Mr. PECORA. That was reason No. 1. Reason No. 1 is this letter marked "Exhibit No. 13." Now, what is reason No. 2?

Mr. VERHELLE. Reason No. 2 was newspaper articles that appeared indicating not only the fact that the write-off had taken place but, furthermore, the amount of the write-off. Reason No. 3—

Mr. PECORA (interposing). Wait; let us not leave that reason No. 2 so quickly. Did those newspaper articles appear before or after the issuance of the annual report to the stockholders for the year 1931?

Mr. VERHELLE. Before, sir.

Mr. PECORA. Before?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Could you produce any of those newspaper articles?

Mr. VERHELLE. I can get some here quickly.

Mr. PECORA. I wish you would.

Mr. VERHELLE. I will do that. I will have them here tomorrow, I think.

Mr. PECORA. Thank you. I am going to assume that those newspaper articles were published prior to the sending out of this annual report marked "Exhibit No. 9."

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You want the committee to understand that that was one of the reasons why you did not include any mention of the write-off of twenty-three-million-odd dollars in the annual report of 1931?

Mr. VERHELLE. That is one of the reasons.

Mr. PECORA. One of the reasons was that the newspapers had already given that information?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And you were willing to have the stockholders informed by newspaper articles rather than by the report of the company about that?

Mr. VERHELLE. It was perfectly satisfactory as long as they had already done it. There was no particular reason why it should be included again. There was nothing to be gained by it for depositors.

Mr. PECORA. Nothing to be gained other than the certainty that the knowledge would be acquired by the stockholder, isn't that so, and that the stockholder got it under the authority of the executive officer of his company?

Mr. VERHELLE. Oh, he has it under the authority through the fact that he has and can get two separate statements that indicate that particular reduction. He can get it on the authority of the company itself very easily.

Mr. PECORA. He can?

Mr. VERHELLE. By just getting those two statements. They are available to him and he can obtain them.

Senator COUZENS. What two statements?

Mr. VERHELLE. The preceding and last statement, a comparison of the invested capital in the two statements indicating the amount of the reduction.

Mr. PECORA. And you think every stockholder knows that?

Mr. VERHELLE. Well, every stockholder can get a copy of the report.

Mr. PECORA. You think every stockholder knows that, do you?

Mr. VERHELLE. Well, I would not venture to say as to what stockholders know.

Mr. PECORA. Now give reason No. 3.

Mr. VERHELLE. Reason No. 3 was that Governor Meyer, of the Federal Reserve Board, at Washington had indicated to one of our officers that this drastic thing which we were doing, this——

Mr. PECORA (interposing). Be more specific. What drastic thing?

Mr. VERHELLE. The making of this large write-off——

Mr. PECORA. Yes.

Mr. VERHELLE. Should be handled with the greatest of care. It should be borne in mind, of course, that up to that time none of the large institutions anywhere in the country had made such comparatively large write-offs, and this particular one was leading the way to a number of others throughout the country, and it indicated that it could be done without causing serious trouble.

Mr. PECORA. Do you mean by that that Governor Meyer—you mean Eugene Meyer?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Then of the Federal Reserve Board—had indicated to one of the officers of your company that he knew of this what you call a “drastic” thing, consisting of this write-off of approximately \$23,000,000 or more?

Mr. VERHELLE. Oh, he was consulted, sir.

Mr. PECORA. He was consulted—by whom?

Mr. VERHELLE. By Mr. Mark Wilson.

Mr. PECORA. And is that the officer to whom he indicated his ideas in the matter?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Do you want the committee to understand that Governor Meyer had indicated to Mr. Mark Wilson that the Detroit Bankers Co., in preparing and issuing to its stockholders its annual report for the year 1931, should use care to conceal from them by any statement contained in the report itself or the absence of any statement in the report the fact that this drastic write-off had been made?

Mr. VERHELLE. Not at all, sir.

Mr. PECORA. What do you mean to indicate when you advance that as your third reason?

Mr. VERHELLE. I mean to indicate that at the time this write-off took place the pace was being set for various institutions throughout the country, in that practically none of them had done anything of the sort, and that we felt a bit worried as to how the public would take to such a large write-off. Since then, of course, a number of them have been made, but at that time we had no experience to rely upon, and therefore we consulted numerous individuals, I presume, who may have shed some light on the subject.

Mr. PECORA. Who were those individuals that you consulted?

Mr. VERHELLE. I said “we”, sir. And I mentioned Governor Meyer, and I am trying now to explain what Governor Meyer said, that he did not say that we should publish a false report or anything of that sort, but he indicated in this conference that he would recommend going ahead and writing down these assets, providing that caution was used in the connection with the publicity in connection with it.

Mr. PECORA. Was that construed by you as meaning that no publicity should be given to the fact of such write-off to the stockholders of the company?

Mr. VERHELLE. Oh, there was publicity.

Mr. PECORA. Was that construed by you as meaning that no publicity in the annual report to the stockholders should be given to the fact of this write-off?

Mr. VERHELLE. I indicated that as one of the reasons that would come to my mind now—there are probably others—as to the factors that would have entered into a consideration of whether or not that figure should have been quoted in the stockholders' report.

Senator COUZENS. And yet you said when that report was issued it had all been published in the press about these large write-offs?

Mr. VERHELLE. Yes.

Mr. PECORA. What was there to worry about if it had already been published?

Mr. VERHELLE. Why continuously dwell upon it?

Senator COUZENS. The committee will adjourn until 10 o'clock tomorrow morning.

Mr. PECORA. You return then, Mr. Verhelle, and Mr. Ballantyne too, and the other witnesses under subpoena report.

(Whereupon, at 4:25 p.m., the committee adjourned until 10 a.m. of the following day.)

STOCK-EXCHANGE PRACTICES

FRIDAY, JANUARY 26, 1934

UNITED STATES SENATE,
SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to adjournment on yesterday, in Room No. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senator Fletcher (chairman). Adams. Townsend, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; Thomas G. Long, attorney for witnesses summoned in connection with Detroit Bankers Co.; Clifford B. Longley, attorney for John Ballantyne.

Senator COUZENS (presiding). The subcommittee will please come to order.

Mr. PECORA. Will you resume the stand, Mr. Verhelle.

TESTIMONY OF JOSEPH F. VERHELLE, GROSSE POINTE, MICH.—Resumed

Mr. PECORA. Mr. Verhelle, you testified on yesterday that the text of the annual report to stockholders of the Detroit Bankers Co. for the year 1931, marked in evidence "Committee Exhibit No. 9, January 24, 1934", was substantially your phraseology. Now, is that equally true of the annual report sent out to stockholders of that company for the year 1930, a copy of which has been received in evidence here as committee exhibit no. 10 as of January 25, 1934?

Mr. VERHELLE. In 1930 I was requested to prepare an annual report—and, you understand, this is to the best of my recollection—and I submitted various forms. My recollection is that a committee was appointed to prepare an annual report, and that finally, after various forms and ideas of a report were submitted to that committee, Mr. Mark Wilson brought to me the ideas of that committee, or the ideas of Mr. Haass, who was not on the committee, but he, I definitely recall, had something to do with the preparation of that report; and that thereupon the ideas that were presented to me were incorporated in a text, by myself, which was then turned over and marked up, and I suppose two or three or perhaps half a dozen copies of that text were submitted in various ways, with changes

and additions, but just as to where they originated I would be unable to recall at this particular moment. But the result was the report that you have, sir.

Mr. PECORA. After the various revisions were made by members of that committee you have referred to, would you say that the report for 1930 as actually issued is substantially in accordance with the report which you originally prepared?

Mr. VERHELLE. Oh, hardly.

Mr. PECORA. What did you say?

Mr. VERHELLE. Hardly. I recall preparing a very short report, of about one page, and of preparing a very lengthy affair consisting of a very large number of pages, with the notion that from that could be selected pretty much the particular material that was to go into this report.

Mr. PECORA. Well——

Mr. VERHELLE (continuing). The ideas were returned to me and I remember, in writing it, I combined it.

Mr. PECORA. Then, is the text of the report for 1930 your phraseology?

Mr. VERHELLE. With a large number of changes, I suppose in grammar and——

Mr. PECORA (interposing). Made by persons other than yourself?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. The substance of the text is your phraseology as contained in the 1930 report, is it?

Mr. VERHELLE. I think Mr. Mark Wilson would be able to determine that better than I would, because it seems to me at one stage of the preparation of this report I received typewritten copies or something of the kind, particular excerpts, possibly of things I had written in the original drafts, plus the material added.

Mr. PECORA. I notice in the annual report for 1930 that the consolidated statement of condition, which appears upon the central double page portion of the report, is entitled:

Consolidated statement of condition of the units of the Detroit Bankers Co. at the close of business December 31, 1930.

Does that purport to include all the units of the Detroit Bankers Co. or only the banking units?

Mr. VERHELLE. Well, outside of one company, which was not then on the books of the Detroit Bankers Co. but which later on, in January of 1931 a legal opinion was obtained, and which company was subsequently set up on the books of the Detroit Bankers Co. at \$1, the banking units were the only companies then owned directly by the Detroit Bankers Co.

Mr. PECORA. Which is the company to which you have just referred?

Mr. VERHELLE. The First National Co.

Mr. PECORA. The First National Co. was an investment affiliate of the First National Bank, was it?

Mr. VERHELLE. Yes.

Mr. PECORA. And was a wholly owned subsidiary?

Mr. VERHELLE. No; there were certain legal ramifications in connection with the First National Co. that made it rather difficult to determine just where the ownership and control lay.

Mr. PECORA. Who held its capital stock?

Mr. VERHELLE. It was endorsed on the certificates of the First National Bank.

Mr. PECORA. That is to say, a certificate of stock of the First National Bank carried with it a proportionate interest of the capital stock of the First National Co.?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And no stock of the First National Bank could be sold without having joined, in the sale or transfer of that stock, a proportionate interest in the capital stock of the First National Co.

Mr. VERHELLE. It appears to me that there was some question about that particular point.

Mr. PECORA. Well, was that question ever determined?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. In what way?

Mr. VERHELLE. It was determined that none could be.

Mr. PECORA. Yes. Now, who owned all of the capital stock of the First National Bank in Detroit on and after the incorporation of the Detroit Bankers Co.?

Mr. VERHELLE. The majority of the stock, that is, the great majority of it—with the exception of a few outstanding shares, that might have been as much as—well, there were very few, and I don't know whether it was the one mentioned here the other day, 31 shares, or not, but it was a very small number at any rate—all but that small portion was exchanged and was owned by the Detroit Bankers Co.

Mr. PECORA. So that through that ownership the Detroit Bankers Co. also owned the First National Co.?

Mr. VERHELLE. As later determined; yes.

Mr. PECORA. In this consolidated statement of condition of the units of the Detroit Bankers Co. as embodied in the annual report for 1930 to the stockholders of the Detroit Bankers Co., is there included a statement of condition of the First National Co. as of December 31, 1930?

Mr. VERHELLE. No, sir.

Mr. PECORA. Why was it left out?

Mr. VERHELLE. Because the ownership was undetermined at that time; and I think furthermore it was felt that there was no particular point in carrying in that this matter, as its value did not add to the value of the Detroit Bankers Co., and it was not at that time carried on the books of the Detroit Bankers Co., to the best of my recollection.

Mr. PECORA. Well, wasn't it regarded as a unit of the Detroit Bankers Co. during the year 1930?

Mr. VERHELLE. There was quite a question about that in the minds of a number of the directors.

Mr. PECORA. Wasn't it regarded and dealt with as a unit of the Detroit Bankers Co. that year?

Mr. VERHELLE. No, sir.

Mr. PECORA. Was it dealt with as a unit over which the Detroit Bankers Co. had no ownership?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Entirely so?

Mr. VERHELLE. Entirely so would be the best of my knowledge.

Mr. PECORA. Well, now, had the question of ownership been cleared up in the year 1931?

Mr. VERHELLE. The question of ownership had been cleared up, but there was a decided reluctance on the part of the Group Co. to deal with it as a unit of the Detroit Bankers Co., and I am not certain as to whether I should include the year 1931, but I doubt whether during the year 1931 they dealt with it at all.

Mr. PECORA. You mean that it was not regarded even during the year 1931 as a unit of the Detroit Bankers Co.?

Mr. VERHELLE. Insofar as I can recall; yes. I may be off on my dates so far as the latter part of the year is concerned, but I think not.

Mr. PECORA. When, for the first time, did the Detroit Bankers Co. regard the First National Co. as one of its units?

Mr. VERHELLE. I would be unable to give an approximation of the date as to when, but it seems to me that date would be some time at the beginning of 1932 or the end of 1931, I mean when it was taken up for discussion.

Mr. PECORA. Well, when was it first regarded as a unit of the Detroit Bankers Co. by that company?

Mr. VERHELLE. I recall that a legal opinion was rendered approximately in January, I am sure it was after January 1 of 1931. Anyhow, it was during the month of January, in which the question of ownership of that company was outlined by the attorneys; and among the questions raised in this opinion, or I know among the facts set forth, was that to the effect that the stock was trusteeed under the agreement of 1919, and that a certain group of trustees had control and jurisdiction over the management of this company, or the voting of the stock, or something to that effect, and—well, that is about all I can remember of that opinion.

Mr. PECORA. You still haven't told us when the Detroit Bankers Co. first regarded the First National Co. as a unit which it owned.

Mr. VERHELLE. Well, I would have to look back at the statement of the Detroit Bankers Co. At one time the company was set up on the books of the Detroit Bankers Co., and it was at that time that we first so regarded it.

Mr. PECORA. When was that?

Mr. VERHELLE. I could not recall the exact month.

Mr. PECORA. What year was it?

Mr. VERHELLE. It was either the latter part of 1931 or the early part of 1932. That is my recollection of it.

Mr. PECORA. Now, what other nonbanking units were owned or controlled by the Detroit Bankers Co. during the year 1931?

Mr. VERHELLE. There were affiliated with the Detroit Bankers Co., in addition to the banking units and in addition to the First National Co., to which we have just referred, the Detroit Co., owned in its entirety by the Detroit Trust Co. Incidentally, I may say that that chart is wrong—no; that chart is correct, because that says as of February, as I believe is shown on there. The Detroit Co. was owned by the Detroit Trust Co. The First Detroit Co. was owned in part by the Detroit Co. and in part by the First National Co. The Detroit Bankers Safe Deposit Co. was owned by the Detroit Bankers Co. Well, it is also in the list and you regard that as State bank minority holdings, as affiliated with the Detroit Bankers Co.,

which were all owned by the First National Co., later known as the Assets Realization Co." That is all that I can recall. And I think that is all, too.

Mr. PECORA. Now, in the annual report to stockholders of the Detroit Bankers Co. for the year 1931 there appears what is called:

Combined statement of condition of the banking units at the close of business December 31, 1931.

As you will notice by referring to the report. Why wasn't there included in this combined or consolidated statement of condition the condition of the nonbanking units of the Detroit Bankers Co. in this annual report?

Mr. VERHELLE. I will have to take them one at a time.

Mr. PECORA. All right.

Mr. VERHELLE. The Detroit Co. was already carried in the statement of the Detroit Trust Co., in that all of its capital stock was owned by them. And, incidentally, Mr. Pecora, I forgot to mention a couple of affiliates, and I would like now to correct my former answer.

Mr. PECORA. All right.

Mr. VERHELLE. There were also in existence the First National Bank Building Co. I may be off a little on my title there.

Mr. PECORA. You might look at the chart.

Mr. VERHELLE. And the First National Garage Co. The Detroit Co., as I have already said, was owned entirely by the Detroit Trust Co., and therefore was included in the financial statement of the Detroit Trust Co. The First Detroit Co. was owned in part, 70 percent, by the (witness hesitates for a moment)—by either the Detroit Trust Co. or the Detroit Co. It will come to me in a minute. The other 30 percent was owned by the First National Co. The First National Bank Building Co. was an operating company, carried on the books of the First National Bank; and the First National Garage Co. was an operating company, either carried on the books of the First National Bank or of the First National Building Co., and I do not recall which at this time. And the First Detroit Co., 70 percent of it was carried on the books of the Detroit Trust Co., I believe. The Detroit Bankers Safe Deposit Co. was a separate corporation, with a capital of \$100,000, and owned by the Detroit Bankers Co. I believe that covers them all.

Mr. PECORA. After the issuance of the 1931 report to stockholders of the Detroit Bankers Co., did any stockholders indicate that they wanted, or communicate with the company requesting, additional information?

Mr. VERHELLE. Oh, I would say there were quite a number who asked for information about various phases.

Mr. PECORA. Were their letters answered and the information which they sought given to them?

Mr. VERHELLE. I believe so. I do not recall any specific instances, but these things, of course, come up from time to time; and, quite naturally, they are liable to go to any one of 4,000 people for their information and, of course, would be very hard to answer.

Mr. PECORA. Was it consistently the policy of the Detroit Bankers Co. to answer such letters from stockholders, and to give to such stockholders the information requested by them in their letters?

Mr. VERHELLE. Whenever they came to me I always tried to give them all the information which they asked for.

Mr. PECORA. Were those letters referred for answer to persons other than yourself as well as to yourself?

Mr. VERHELLE. Well, if they came to me I would generally answer them, and if they came to some officer of some unit—to which I believe they would be more likely to come because of some relationship that had existed, why, they were not referred to me.

Mr. PECORA. When such letters from stockholders were addressed to the Detroit Bankers Co. generally and not to any particular individual connected with the personnel of the company, would those letters be referred to you for answer?

Mr. VERHELLE. No. The normal operation was that they would go to Mr. Mark Wilson for answer, unless they were specifically addressed to me.

Mr. PECORA. Do you recall having some correspondence to which you attended on behalf of the Detroit Bankers Co., with a stockholder named R. G. Hentschell, who wrote for certain information that he did not find in the annual report of the Detroit Bankers Co. for the year 1931?

Mr. VERHELLE. No, sir.

Mr. PECORA. Well, now. I show you what purports to be a photostatic reproduction of a letter addressed to the Detroit Bankers Co. by Mr. R. G. Hentschell, under date of January 25, 1932. It was made from the original included among the files of the Detroit Bankers Co. Will you look at it and tell me if you can identify that letter as being a true and correct copy?

Mr. VERHELLE (after looking at the photostat). I do not really recall this letter.

Mr. PECORA. Well, now, probably if you will look at this document which I now hand you, it will help you to recall whether or not that letter, that you now have in your hand, was received.

Mr. VERHELLE. All right.

Mr. PECORA. I now show you for that purpose what purports to be a photostatic copy of a letter addressed to R. G. Hentschell, dated February 10, 1932, and signed, or at least this photostatic copy thereof is signed, with the initials "J. F. V." over the word "Comptroller", which I presume refers to you, doesn't it?

Mr. VERHELLE. Yes, sir. (Witness looks over both papers.) This letter signed "J. F. V." is very much my own phraseology, and while I do not recall the letter, it was undoubtedly written by myself.

Mr. PECORA. Well, was it written in answer to the first letter which I showed you?

Mr. VERHELLE. I would presume that it was, unless there was some other correspondence in between those two dates, which I doubt.

Mr. PECORA. Mr. Chairman, I offer these two letters in evidence, to be marked as separate exhibits.

Senator COUZENS (presiding). The two letters will be appropriately marked as separate exhibits.

(A letter from H. G. Hentschell to Detroit Bankers Co., dated January 25, 1932, was marked "Committee Exhibit No. 91, January 25, 1934," and will be found immediately following where read by Mr. Pecora.)

(And the letter from the comptroller of the Detroit Bankers Co. to R. G. Hentschell, dated February 10, 1932, was marked "Committee Exhibit No. 92, January 25, 1934", and will be found immediately following where read by Mr. Pecora.)

Mr. PECORA. The letter from Mr. Hentschell, addressed to the Detroit Bankers Co., which has been received in evidence as Committee Exhibit No. 91 of this date, and which is on the letterhead of the Manistique Pulp & Paper Co., of Manistique, Mich., is as follows:

MANISTIQUE PULP & PAPER CO.,
Manistique, Mich., January 25, 1932.

DETROIT BANKERS CO.,
Detroit, Mich.

"GENTLEMEN: I just received your annual report for the year 1931, and I would like very much to have you give me a detailed statement of income and expenditures, as there is nothing in the report that would indicate what disposition was made of the difference in the capital, surplus, and undivided profits, amounting to approximately \$23,000,000 as compared to your report for the previous year.

Awaiting your early reply, I remain,
Yours truly,

(Signed) R. G. HENTSCHELL.

The second letter which has been received in evidence as Committee Exhibit No. 92, of this date, reads as follows:

FEBRUARY 10, 1932.

Mr. R. G. HENTSCHELL,
Manistique Pulp & Paper Co., Manistique, Mich.

DEAR MR. HENTSCHELL: The following is in answer to your request for information regarding the detailed statement of income and expenditures:

The statement contained in our stockholders' report pertains to the banking units of the Detroit Bankers Co. In order to simplify our operating procedure, the First Detroit Co. has been transferred from the Detroit Trust Co. to the Detroit Bankers Co. This is responsible for the difference in the invested capital of that company on December 31, 1931. In addition, substantial reserves were set up as a guaranty against the assets of the newly consolidated First Wayne National Bank, so these became of the same general character as those of a new bank. The assets that were removed from the banking units naturally do not appear on the combined statement of the banking units.

A detailed statement of income and expenditures such as you ask for would involve a very great amount of work and in itself would have to be supported by a great deal of statistical data. Of course, all of these items are carried separately for each unit and only those figures are consolidated which will assist us in our operations. We have tried, in the report, to briefly cover the results of our operations of the past year.

If there are any specific details which interest you, we will be glad to furnish information concerning them.

Yours very truly,

J. F. V., Comptroller.

Well, now, Mr. Verhelle, you will observe that the information which was sought by this stockholder, named Hentschell, was not given to him by your reply letter of February 10, 1932, which I have just read. do you not?

Mr. VERHELLE. It would be difficult to determine just exactly what was wanted there due to the peculiarity that existed in connection with the—well, my voice is rather bad. Mr. Pecora.

Mr. PECORA. Just keep that microphone that is on the table ahead of you and talk normally. You do not have to talk right into it.

Senator COUZENS (presiding). Just sit back of the microphone and talk normally.

Mr. VERHELLE. I will ask the committee reporter to read so much of my answer as I have already given.

(The answer as given was read as follows:)

Mr. VERHELLE. It would be difficult to determine just exactly what was wanted there due to the peculiarity that existed in connection with the—

Mr. VERHELLE. Existing in connection with the operation of the Detroit Bankers Co., which was operating on a basis so that its expenditures and income were identical.

The statistical data referred to would involve a complete statement of the actual operations of the Detroit Bankers Co., and it was my belief, I presume, at that time, that this particular stockholder was in reality requesting the income and expense detail regarding the banking units; that is, those covered by the report, and that would have been an immense task to provide.

Mr. PECORA. Don't you see that in his letter of January 25, 1932, the stockholder stated, or rather called your attention to the fact that in the report which he had received from the Detroit Bankers Co. for the year 1931, to quote from his letter [reading]:

There is nothing in the report that would indicate what disposition was made of the difference in capital, surplus, and undivided profits amounting to approximately 23 million dollars as compared to your report for the previous year.

Would it have required a mass of that statistical data to have told that by far the greater part of this 23-million-dollar reduction in the capital assets of the company was due to the setting up of these reserves during the year 1931, that were considerably the subject of your testimony yesterday?

Mr. VERHELLE. I thought that I had really answered that question there, sir. Maybe I am mistaken.

Mr. PECORA. Here is the way you answered it in your reply letter of February 10, 1932 [reading]:

The statement contained in our stockholders' report pertains to the banking unit of the Detroit Bankers Co. In order to simplify our operating procedure the First Detroit Co. has been transferred from the Detroit Trust Co. to the Detroit Bankers Co. This is responsible for the difference in invested capital of that company on December 31, 1931.

In that statement you were not referring to the difference in the invested capital of the Detroit Bankers Co., were you?

Mr. VERHELLE. No, sir.

Mr. PECORA. You were referring to the difference in invested capital of one of the banking units of the Detroit Bankers Co.?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You say further in your reply letter to Mr. Hentschell [reading]:

In addition substantial reserves were set up as a guarantee against the assets of the newly consolidated First Wayne National Bank, so these became of the same general character as those of a new bank.

That did not give him the explanation or the information which he sought, did it?

Mr. VERHELLE. It would depend to some extent, sir, on who Mr. Hentschell was.

Mr. PECORA. Mr. Hentschell was apparently a stockholder of the Detroit Bankers Co., and wrote for information which he felt he

did not get from the annual report of that company for the year 1931, which he had received.

Mr. VERHELLE. It was quite apparent from his letter that he had not only that statement, but the one before it, or another statement, at least, that indicated that reduction in the capital structure.

Mr. PECORA. He wanted to know what was responsible for that reduction, did he not?

Mr. VERHELLE. And in that report, or in both those reports, there were included individual statements of the individual units. My recollection is that if you total up all the units you will arrive at this combined statement. So, therefore, the explanation lay in two units, that is, the First Wayne Bank and the Detroit Trust Co.

Mr. PECORA. That did not explain the reason for the reduction of approximately 23 million dollars in the capital assets of the Detroit Bankers Co. in 1 year's time, did it?

Mr. VERHELLE. It was all covered by the units that follow that consolidated statement.

Mr. PECORA. All followed by what? I did not hear that answer.

(The reporter read the last answer of the witness.)

Mr. VERHELLE. That is, Mr. Hentschell may have been someone who knew and could analyze the statement. I would judge that from the very letterhead. I do not know what position he signed on there. Maybe it is on the top of the letterhead.

Mr. PECORA. He did not sign any position. The letterhead does not carry his name as an officer of the Manistique Pulp & Paper Co.

Mr. VERHELLE. If he is an officer, he would be able to analyze statements rather well, so that he would naturally look at the various units to determine where the decrease came about. To some stockholders you have to give one type of explanation; and to others you can give a shorter explanation, depending upon the type of people they are, I presume.

Mr. PECORA. You did not know the type of person that Mr. Hentschell was, did you?

Mr. VERHELLE. If there is an indication on there that he is an officer of that company—

Mr. PECORA. There is not any such indication on his letter to the company.

Mr. VERHELLE. I recall that name. I have a notion that he is an officer of the Manistique Pulp & Paper Co.

Mr. PECORA. But Mr. Hentschell asked specifically to be informed—and I will quote from his letter again [reading]:

What disposition was made of the difference in the capital surplus and undivided profits amounting to approximately \$23,000,000, as compared to your report for the previous year.

He was not given that information in your reply letter, was he?

Mr. VERHELLE. Well, I think he was, sir; but I do not know just now I would answer it any other way.

Mr. PECORA. Point out in your reply letter to him any statement which informed Mr. Hentschell as to the disposition that was made of the \$23,000,000, approximately, that he referred to in his letter. [Handing paper to the witness.]

Mr. VERHELLE. It becomes necessary, of course, to take into consideration his entire letter, a part of which asked for an income

and expense statement of the company, and the very question itself indicated that he was not familiar with the general make-up or set-up of the organization. The particular drop in the invested capital to which he refers was made up by setting up substantial reserves as a guarantee against the assets of the newly consolidated Wayne National Bank, which is included in this letter, together with the reduction in the capital structure of the Detroit Trust Co. through the removal of the First Detroit Co. from its books.

Mr. PECORA. Mr. Verhelle, those items do not account for a \$23,000,000 reduction, do they?

Mr. VERHELLE. I would have to check up, sir?

Mr. PECORA. You know that they do not, without checking up, do you not?

Mr. VERHELLE. I really do not.

Mr. PECORA. Was not that \$23,000,000 reduction due, substantially, to the losses and write-offs made during the year 1931, as appears from the annual report filed by the Detroit Bankers Co. with the Michigan Securities Commission, showing a decrease in investment values of over \$22,000,000?

Mr. VERHELLE. That figure is taken right off this report, sir.

Mr. PECORA. What report?

Mr. VERHELLE. Right off the same record from which this report is made up.

Mr. PECORA. He did not have a copy of the report filed with the Michigan Securities Commission, did he?

Mr. VERHELLE. That did not enter into the discussion.

Mr. PECORA. The fact is that the \$23,000,000 to which Mr. Hentschell refers in his letter, and about which he sought information, represented approximately the amount of the write-offs or reserves due to decrease in the invested capital, as shown by the annual report filed with the Michigan Securities Commission; is that not true?

Mr. VERHELLE. Those are the same figures he was inquiring about, because the invested capital, as shown in the report to the Michigan Securities Commission, the one that was up for discussion here yesterday, is the statement of the Detroit Bankers Co. from which it was taken. It carries the value of the surplus account, which is nothing but the invested capital of these units set up on that statement. In other words, the books are continuously adjusted so as to reflect the invested capital of these units, because there is no other value at which they could logically be carried.

Mr. PECORA. I know, but why was not Mr. Hentschell given the information that he asked for?

Mr. VERHELLE. I will just answer the question—I have answered that question. You have questioned it, so I was just trying to figure out here if that difference was not made up in those two units. [After examining papers.] Yes, sir. The difference between the two reports is to be found by referring to the First Wayne National Bank as against the 2 old banks, and also referring to the Detroit Trust Co. statements in the 2 statements I have referred to. The drop in the First National, just as I have figured it here—unless I am in error—is \$17,000,000 of the \$23,000,000, and the balance of it is in the Detroit Trust Co.

Mr. PECORA. Subsequent to the sending of your letter of February 10, 1932, to Mr. Hentschell, did you receive from him a letter in reply to your letter, of which this paper which I now show you is a photostatic copy?

Mr. VERHELLE. I cannot read this copy.

Mr. PECORA. It will probably help you to show you this copy [handing paper to the witness].

Mr. VERHELLE. While I do not recall the letter, undoubtedly it is a true copy.

Mr. PECORA. I offer that letter in evidence.

Senator COUZENS (presiding). The same may be entered.

(Letter Feb. 16, 1932, Hentschell to Verhelle, was received in evidence, marked "Committee Exhibit No. 93, Jan. 26, 1934", and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The \$17,000,000 item you mentioned as reserves was not really reserves, was it? Was not that amount made up of write-offs?

Mr. VERHELLE. I have been trying to recall the answer to that question, which I rather expected, and I am not just quite clear as to what portion of that was written off immediately and what portion was used later, or whether a good substantial amount of it was carried on through as a reserve, or just what happened to it.

Mr. PECORA. The letter last offered in evidence, and marked Committee's Exhibit No. 93 of this date, is on the letterhead of the Manistique Pulp & Paper Co. and reads as follows [reading]:

FEBRUARY 16, 1932.

DETROIT BANKERS COMPANY,
Detroit, Michigan.
(Attention Mr. J. F. Verhelle.)

GENTLEMEN: With further reference to your letter of February 10, it was not my intention to ask for an itemized statement of all income and disbursements, but what I would like to get is some idea as to why there was such a substantial decrease in the capital investment account. It would appear to me that the company sustained substantial losses during the past year, and I would like to have some information as to what these were and the amounts. It is stated in your letter that certain assets were removed from the banking units, which do not appear on the compiled statement, and that in addition substantial reserves were set up as a guarantee against certain assets of the newly consolidated First Wayne National Bank. If these items are carried as reserves, it would seem to me that such items should be carried on your financial statement. At any rate, I would appreciate hearing from you fully with reference to the above matter.

Yours truly,

(Signed) R. G. HENTSCHELL.

Did you, in reply to that letter, send Mr. Hentschell a letter, a photostatic copy of which I now show you?

Mr. VERHELLE (after examining paper). This letter is undoubtedly written by me, and is in reply to the letter which you have shown me.

Mr. PECORA. I offer it in evidence.

Senator COUZENS (presiding). Let it be entered in the record.

(Letter Feb. 23, 1932, Verhelle to Hentschell, was received in evidence, marked "Committee Exhibit No. 94, Jan. 26, 1934", and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter received in evidence as Committee Exhibit No. 94 of this date reads as follows [reading]:

FEBRUARY 23, 1932.

Mr. R. G. HENTSCHELL,

Manistique Pulp & Paper Co., Manistique, Michigan.

DEAR MR. HENTSCHELL: The following is in answer to yours of February 16 requesting information in regard to my letter of February 10. It appears from your letter that you were not aware that this statement under discussion is a "combined statement of the banking units" and not a statement of the Detroit Bankers Company. Substantial reserves, not carried in our statement, were set up in anticipation of losses, the principal character of which were in connection with assistance rendered to other banking institutions. It is the desire of the officers and directors of this company, and the banks, as well as in accordance with the desires of the various banking departments that these reserves be not reflected on the statement of the bank.

Very truly yours,

(Signed) J. F. V.
Comptroller.

The amount of the reserves that had been set up during the year 1931, and to which you refer in your letter of February 23, 1932, as follows: "Substantial reserves, not carried in our statement, were set up in anticipation of losses, the principal character of which were in connection with assistance rendered to other banking institutions" refers particularly to what reserves or to what assistance?

Mr. VERHELLE. I think the largest items of reserves for that year by far, which probably outweighed any other, were the reserves set up by the various institutions in connection with the American State Bank of Detroit.

Mr. PECORA. What did those reserves amount to?

Mr. VERHELLE. This is 1931?

Mr. PECORA. 1931. Give us the approximate amount.

Mr. VERHELLE. It is more than a million and a half, and it might be as high as four or five million. I am not at all sure, because those reserves were set up from time to time, and I am not at all sure as to the amount, sir.

Mr. PECORA. Mr. Hentschell was correct in his statement in his letter of February 16, 1932, wherein he said [reading]:

It would appear to me that the company sustained substantial losses during the past year, and I would like to have some information as to what these were and the amounts.

Isn't that so?

Mr. VERHELLE. Hardly, sir.

Mr. PECORA. What is that?

Mr. VERHELLE. That is hardly so.

Mr. PECORA. Why isn't it so? Had not the Detroit Bankers Co. sustained substantial losses during the year 1931?

Mr. VERHELLE. They had written off a large amount of assets, written down.

Mr. PECORA. How much?

Mr. VERHELLE. Or set up reserves against them.

Mr. PECORA. Those write-offs accounted for by far the greater part of the 23-million-dollar reduction?

Mr. VERHELLE. Those write-offs are the reserves that were set up, whenever they came.

Mr. PECORA. They were not losses?

Mr. VERHELLE. As a matter of fact—it is purely my recollection, but rather definite, that the bankers company paid quite an income tax in 1931, if that would have any bearing on it.

Mr. PECORA. Were they losses, or were they not losses?

Senator COUZENS. They were really contemplated losses, were they not?

Mr. VERHELLE. It depended upon what conditions would develop, as to whether they would become losses or whether they would not become losses.

Mr. PECORA. As a matter of fact, in March 1932 you dictated this memorandum that was put in evidence yesterday as Exhibit 15, in which you stated that "During October 1931 we estimated total losses at \$48,793,000." You were referring to losses in that statement, were you not?

Mr. VERHELLE. But that statement was not used——

Mr. PECORA. Whether it was used or not, you were setting forth a fact, were you not?

Mr. VERHELLE. That depends upon what the reason was why I may not have used that letter.

Mr. PECORA. But whatever the reason was for your dictating this memorandum of March 7, 1932, when you set forth therein that "During October 1931 we estimated total losses at \$48,793,000", you were setting forth what you knew to be the fact, were you not?

Mr. VERHELLE. First of all, I question seriously whether or not that memorandum was used and whether or not that definitely——

Mr. PECORA. Will you please refrain from saying that again, Mr. Verheile? You have told us that a dozen times yesterday, and you have told it to us three or four times already this morning. I am not asking you anything about whether or not this memorandum was actually delivered by you to anyone else. You have admitted that you dictated it. When you made that statement, or dictated that statement as part of this memorandum which is dated March 7, 1932, you made a statement that was within your knowledge, did you not?

Mr. VERHELLE. Or my opinion, at least.

Mr. PECORA. Or your opinion. All right. Yesterday afternoon you turned over quite a number of documents which were marked for identification, and which you stated were copies that you had in your possession of certain memoranda which, from time to time you had prepared as comptroller of the Detroit Bankers Co., and submitted to various other officers.

Among the memoranda which you produced yesterday afternoon is this one which was marked Committee's No. 16 for identification, as of January 25, 1924. I show it to you again so that you may make sure that it is one of the papers that you turned over yesterday. Will you look at it and tell us if it is?

Mr. VERHELLE (after examining paper). It is.

Mr. PECORA. Do you recall having been asked, in the course of your examination yesterday—I believe it was by Senator Couzens—if it was not the fact that you had from time to time prepared memoranda containing what was referred to as criticisms? Do you recall that?

Mr. VERHELLE. Yes; there were several questions.

Mr. PECORA. There was a series of questions along that line.

Mr. VERHELLE. A series of questions along that line.

Mr. PECORA. And you answered, in substance, that you had not done any such thing; that they were not criticisms?

Mr. VERHELLE. They were recommendations, criticisms, and suggestions. I believe that I elaborated on that.

Mr. PECORA. This document, which was marked as committee's exhibit no. 16 for identification yesterday, is addressed to Mr. Wilson W. Mills, chairman of the board of the First Wayne National Bank, and is dated May 18, 1932. Attached thereto is a covering letter addressed to Mr. Mills, dated May 19, 1932. Do you recall the occasion for your preparing this memorandum, which is denominated on the title page thereof as "Private and Confidential Memorandum, Copy No. 5"?

Mr. VERHELLE. I do, sir. Pardon me, Mr. Pecora. At this point I would like to ask for that copy, or a copy of this. I suppose this is the point where I must put it in the record.

Mr. PECORA. This is the point what?

Mr. VERHELLE. I would like to have that copy returned to me.

Mr. PECORA. Of what?

Mr. VERHELLE. Of that particular memorandum, or a copy of it.

Senator COUZENS. We will decide that after we get through with your testimony.

Mr. PECORA. I now repeat the question I asked you. What were the circumstances under which you prepared and gave to Mr. Wilson W. Mills the original of this Committee's Exhibit No. 16 for identification?

Mr. VERHELLE. May I read that forwarding letter?

Mr. PECORA. Yes [handing a paper to the witness].

Mr. VERHELLE. There were two separate sets of circumstances. One pertained to the forwarding letter and one set of circumstances pertained to the report itself.

Mr. PECORA. Tell us what those circumstances were, briefly.

Senator COUZENS. Please read the forwarding letter.

Mr. VERHELLE (reading):

MAY 19, 1932.

Mr. WILSON W. MILLS.

Chairman of the Board, First Wayne Bank:

In rereading this memorandum I have noticed the omission of a large number of items similar to those outlined herein, some of which have been covered in memorandums and statements previously made to certain directors.

Because of your desire to have this memorandum at once, I have not had the opportunity to supply the memorandums referred to. I will obtain them for you as rapidly as possible.

Respectfully,

J. F. VERHELLE, *Comptroller.*

This particular letter was written at the suggestion of Mr. Mills or, rather, Mr. Mills asked for a letter of transmittal or a memorandum covering the subject discussed in the memorandum in order to determine for himself as to the completeness of it. These circumstances relate to the letter of transmittal.

The report dated May 18, which it transmits, was a confidential memorandum written for the purpose of definitely not permitting anything that might be unethical or improper or might be considered out of order in connection with the activities of the personnel connected with the various units of the Detroit Bankers Co. It was

a definite attempt to clean up, one might say, or discontinue anything that might savor of an unethical practice; and I felt definitely that I would be remiss in my duties as comptroller of the Detroit Bankers Co. if I did not use my every effort toward that end. The memorandum was submitted, and I know that since that time, within just a few days ago, as a matter of fact, a representative or an investigator asked me about this memorandum, so I presume you have some of the details in connection with it.

Senator COUZENS. I observe, with reference to your transmittal letter to Mr. Mills, that there is an omission of a large number of items similar to these outlined therein. Were those omitted ones later delivered to Mr. Mills?

Mr. VERHELLE. No, sir; they were not—that is, I must qualify that. There may have been certain items there that were completed, or certain items upon which more information was furnished; but as to actually carrying out the specific wording of that memorandum I could not say that.

Senator COUZENS. You refer herein also to the fact that some of the items omitted from this report had been covered in memorandums and statements previously given and made to certain directors. Have you a record of those?

Mr. VERHELLE. No, sir; but I believe that you people have, because it was in reference to that that someone saw me a few days ago and asked me questions connecting up those two reports.

Senator COUZENS. Was it for that reason that you submitted this report yesterday?

Mr. VERHELLE. No, sir.

Mr. PECORA. You had been asked, prior to your preparing and giving to Mr. Mills this memorandum marked "Committee Exhibit No. 16 for identification", to make a report covering transactions between the First Wayne National Bank and certain of its officers, had you not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And this report or memorandum was prepared by you in response to that request or those directions that you received from Mr. Mills, was it not? Perhaps if I read from the report which is dated May 18, 1932, addressed to Mr. Mills, which was embodied in this memorandum, the first paragraph thereof, it will refresh your recollection. You say as follows:

In accordance with your direction I am sending you a report covering transactions between the bank and certain of its officers which have been the subject of conferences between you and Mr. Ballantyne.

Mr. VERHELLE. I do not know whether I received the instructions or whether the directions came from Mr. Mills. I do not recall that. I do not recall just who they came from at this time.

Mr. PECORA. In this communication addressed to Mr. Mills you say that you address it in accordance "with your direction."

Mr. VERHELLE. He may have directed someone to direct me.

Mr. PECORA. This memorandum concerns itself primarily with a report covering transactions between the First Wayne National Bank and its predecessor institutions and certain of its officers, does it not?

Mr. VERHELLE. I assume that is the way it is worded here.

Mr. PECORA. You referred in an answer that you made a few minutes ago to Senator Couzens' question, to unethical practices. What did you mean by that? You said something about there having been unethical practices that you wanted to clean up and that you felt it was your duty as comptroller to give your conscientious devotion to the task—or that is the substance of what you said in answer to Senator Couzens' question, as I recall it.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. What did you mean by that?

Mr. VERHELLE. The practices as covered in that report appear to me to be questionable from an ethical standpoint.

Mr. PECORA. And they were practices relating to loans made by the bank either to certain of its officers or upon the recommendation and with the approval of certain of the officers of the bank?

Mr. VERHELLE. There is a various miscellaneous assortment of items in there of miscellaneous types and descriptions, sir.

Mr. PECORA. This memorandum is a document of 48 typewritten pages, and I do not want to burden this record nor your examination with any detailed survey of it; but tell us briefly, in order to make a short cut to the subject, the general nature of these practices that you regard as unethical.

Mr. VERHELLE. The subject matter contained in this report was the result of a review of the records of the various departments or units by myself, personally.

Mr. PECORA. That report concerns itself with the First Wayne National Bank, does it not?

Mr. VERHELLE. Not entirely, sir. The First Wayne National Bank, of course, was—

Mr. PECORA. Or the predecessor banks?

Mr. VERHELLE. I believe so; yes, sir; in the main, yes, sir.

Mr. PECORA. Apparently, either Mr. Mills or Mr. Ballentine, or perhaps both, prior to your making this review of those records of the bank which constitute the basis of this report to Mr. Mills, had discussed with you the matter of making a survey or complete review of certain loan accounts existing in the bank and with which certain of the officers of the bank were connected in various manners?

Mr. VERHELLE. Mr. Ballantine had indicated to me that he wanted everything handled properly—not in so many words, but I knew definitely that that was his primary consideration; and as a result, I verbally stated some of the questions I had in my mind, and my recollection is that I was asked to put it in writing, and as a result there is this specific report.

I did not quite complete my former answer, sir, to the previous question. I had based this entire report on the records, as I said, examined by myself, and I did not go any further in connection with this investigation than that point, because I believed that it was not up to me to do so, and that I had completed my end of the transaction by substantially calling it to the attention of the management.

Mr. PECORA. Do you mean by that, that having been asked by either Mr. Ballantyne or Mr. Mills to review certain loan accounts in the bank with which certain officers of the bank were connected, you made that review, prepared and submitted that report to Mr.

Mills, and by so doing considered that you had fairly discharged the duty which was imposed upon you?

Mr. VERHELLE. Taking out one premise in your question, that I had been asked to review certain loan accounts—I had not been asked to review any certain loan accounts.

Mr. PECORA. Were you asked to review all of the loan accounts of the bank?

Mr. VERHELLE. No.

Mr. PECORA. Were you asked to review any particular loan accounts?

Mr. VERHELLE. No, sir.

Mr. PECORA. What were you asked to review?

Mr. VERHELLE. I would say that I reviewed whatever I thought was the proper thing to review to cover the particular point that has been discussed here.

Mr. PECORA. What was that point—unethical practices?

Mr. VERHELLE. Yes.

Mr. PECORA. Unethical practices on the part of officers of the bank?

Mr. VERHELLE. I would say so.

Mr. PECORA. Mr. Chairman, I offer that memorandum or report, which has been marked "Committee's Exhibit No. 16 for Identification", in evidence; but in view of its voluminous character I do not think it is necessary to spread it in full upon the minutes of the hearing.

Senator COUZENS. It was marked for identification yesterday.

Mr. PECORA. I am now offering it in evidence.

Senator COUZENS. It may be received.

Mr. PECORA. I will ask the witness some questions about it, so that it will not be necessary to put it all in the record.

(The document referred to, heretofore marked for identification as Committee's Exhibit No. 16, was received in evidence, marked "Committee Exhibit No. 95, Jan. 26, 1934"; and the same will not appear in full in the record.)

Mr. PECORA. The document has been marked in evidence as Exhibit No. 95 of this date; and in this report or memorandum marked "Committee's Exhibit No. 95" in evidence, among other things you say as follows (reading):

In accordance with your direction I am sending you a report covering transactions between the bank and certain of its officers which have been the subject of conferences between you and Mr. Ballantyne.

There are undoubtedly other details which will appear upon a more complete review.

Because of the officers named, it did not appear to me to be advisable to proceed further until the matter was reviewed by you.

The individuals concerned are as follows: John E. Bodde, Donald H. Sweeny, Gilbert H. Beasley, Sidney J. Dowding, Elvin G. Krebs, Arnott H. Moody, Rupert Pletsch, John H. Rooks, Alfred T. Wilson, F. E. Morrison, Mason Borgman, D. M. Irwin, Theodore F. Torney, Daniel J. Gonion (River Rouge), and Henry Rochrig (Wyandotte).

What was the reason for your saying in this report, as follows?
[Reading:]

Because of the officers named it did not appear to me to be desirable to proceed further until the matter was reviewed by you.

Mr. VERHELLE. Because that was my opinion, sir.

Mr. PECORA. What is that?

Mr. VERHELLE. Because that was my opinion at the time.

Mr. PECORA. Why did you not consider it advisable to proceed until there had been a review by Mr. Mills?

Mr. VERHELLE. I was an officer of the Detroit Bankers Co., not an officer of the First Wayne National Bank.

Mr. PECORA. The Detroit Bankers Co. virtually owned all the capital stock of this bank, and as such it had a legitimate interest to inquire into the operation of the bank, did it not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. What I am trying to get at, Mr. Verhelle, is the reason why you said in this report, at the very outset, that, because of the officers named, it did not appear to you to be advisable to proceed further until the matter was reviewed by Mr. Mills, who then was the chairman of the board of the bank itself.

Mr. VERHELLE. Would he not be the proper person to whom to report that, sir?

Mr. PECORA. Apparently Mr. Mills had already asked you to inquire into these things that you have referred to as unethical conduct of practice and which affected officers of the bank, and, having been assigned that task by Mr. Mills, you proceeded to fulfill it as indicated by this report purporting to be a report of your examination of these so-called unethical practices. Why did you not proceed further?

Mr. VERHELLE. Because it was a matter on which I wanted his advice.

Mr. PECORA. After that statement in this report appears the following [reading]:

The following is therefore only an outline, and indicates the nature of the transactions which it is believed are irregular. The outline is not complete, but does cover some transactions of each of the individuals whose actions have been brought to my attention. This memorandum does not cover ordinary errors or negligence in connection with the handling of loans, the type of which you are, it is believed, familiar with. It should also be understood that no accusations are being made, but that the items contained herein are being recorded only on specific instructions in accordance with the records of the bank and in line with my responsibility as chairman of the Detroit Bankers Co.

A cursory investigation has revealed the fact that the majority of mortgages made through the First Wayne National Bank, involving either officers or employees, have had but few principal payments. These mortgages are heavily concentrated within a certain group of individuals, particularly those who are or have been directly or indirectly connected with the making of the mortgage. Of \$1,100,000 of mortgages that are in the names of officers or employees \$486,000 appear to be the liability of 27 such individuals. This total involves 115 mortgages.

You found that to be a fact as the result of your cursory investigation, did you not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You say further in this report to Mr. Mills [reading]:

It appears further that the officers and employees that have become involved are principally officers and employees that have been connected with the Delray branch, i.e., Messrs. Moody, Sweeny, Krebs, and Torney and certain officers and employees of the Peoples State Bank, principally Mason Bergman.

You found that to be the fact, too, I presume?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You said also as follows in this report [reading]:

The volume of mortgages in connection with the senior officers was such as to make it practically impossible for those operating the mortgage department to give the matter proper attention.

What did you mean by that statement in this report?

Mr. VERHELLE. I do not just recall specifically what I meant there, unless it refers to the preceding sentence which you just read.

Mr. PECORA. Apparently not, because it refers to mortgages in connection with the senior officers. Who were the senior officers that you had in mind?

Mr. VERHELLE. It would be those whom I have covered there.

Mr. PECORA. You have mentioned specifically up to this point 15 officers.

Senator COUZENS. Which ones in that list are the senior officers referred to there?

Mr. PECORA. Look at the list [handing document to the witness].

Senator COUZENS. Who were the senior officers in that list?

Mr. VERHELLE. They are referred to in the preceding paragraph—Sweeny and Moody. That is my recollection.

Mr. PECORA. What offices did they have in the bank, respectively? What was Mr. Sweeny's position?

Mr. VERHELLE. President.

Mr. PECORA. What was Mr. Moody's position?

Mr. VERHELLE. Vice President.

Mr. PECORA. I observe this statement in your report, which I will read to you [reading]:

Before entering into a discussion of all the types of transactions involving the officers of the bank it should be stated that under the system in use it was entirely possible for a loaning officer to borrow or loan to himself or anyone else and discharge the liability without the matter coming to the attention of those concerned.

Did you find that that was the situation?

Mr. VERHELLE. I found that that was possible; yes, sir.

Mr. PECORA. What was the system in vogue at that time that made that possible?

Mr. VERHELLE. A bank of that size has a very large number of loans on its books. They run into very many thousands. Upon an examination by the banking authorities it was generally recommended that certain items be placed in the loss column, and it is a rather regular practice to charge those items against reserves at that time. It therefore becomes essential to follow up those items and attempt to recover in connection with them. That particular item there was handled by setting up a separate individual group of persons, individuals who would have nothing to do with the originating of those items, and those individuals would follow up the collection of them and therefore prevent a possibility of that happening.

Mr. PECORA. Were not you also calling attention in this portion of your report to a system which would enable the senior officers of the bank to have the bank make a loan, an officer to himself, and to discharge his liability and remove the note evidencing that liability, without the transaction coming to the attention of others in the bank?

Mr. VERHELLE. That could hardly be done, sir.

Mr. PECORA. Then what did you mean when you said that—

It is entirely possible for a loaning officer to borrow on a loan to himself, or anyone else, and to discharge his liability without the matter coming to the attention of those concerned.

Senator COUZENS. You meant the management, didn't you?

Mr. VERHELLE. No, sir. I meant just exactly what that particular paragraph says. And that is, that there are—

Senator COUZENS (interposing). Who were those that you had reference to?

Mr. VERHELLE. Well, any loaning officer, if he knew how to do it, under a system that had come down through the ages, could possibly develop a method whereby that might possibly be done.

Mr. PECORA. Whereby what could possibly be done? Do you mean having the bank to make a loan to himself on a note, and then discharge that liability, and remove the note without the matter coming to the attention of others in the bank concerned with such transactions? Is that what you meant?

Mr. VERHELLE. Substantially so; yes. He would have to know how to do it, of course.

Mr. PECORA. Now, you found that to be a weakness, did you?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Or at least you considered it to be a weakness?

Mr. VERHELLE. I did, sir.

Mr. PECORA. And you recommended that steps be taken to correct it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Well, now, you further say in this memorandum, immediately following the portion I have just read to you, as follows:

It is understood that definite steps have been taken to place the liability ledgers under control and to remove the original notes from the control of the loaning officer.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That was one of the steps that you caused to be taken to correct the situation or system that you have just referred to here?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, you also say in this report of yours as follows:

A memorandum was addressed to Mr. Sweeny, calling his attention to the erroneous impression which was given to the directors, and his attention is specifically called to the control necessary and which was being set up under the new operations. Under those operations numerous transactions have been brought to our attention, the details of which are not recorded here, but a large number of which are written up and on file in our office. These indicate that large and substantial losses have been incurred through negligence, and so forth. Every effort to establish any effective control over the loaning practices of the Peoples office has been strenuously opposed.

Who had strenuously opposed efforts to establish effective control over the loaning practices of this bank or of any of its branches?

Mr. VERHELLE. I would have to use the general term, and say the management.

Mr. PECORA. Now, can't you tell us which individuals among the managing personnel had strenuously opposed efforts to establish effective control over the loaning practices of the bank?

Mr. VERHELLE. Well, among them were Mr. Sweeny.

Mr. PECORA. Who was the president of the bank?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And who was one of the officers whose unethical practices are alluded to in this report of yours?

Mr. VERHELLE. Or rather, he was one of the officers in connection with whom the transactions are recorded there, as shown by the books of the bank, which on the basis of the records of the institution might indicate, or would indicate, unethical practices.

Mr. PECORA. They would also indicate irregularities, wouldn't they?

Mr. VERHELLE. I am not familiar at the present moment, I am sorry to say, so as to be able to answer your question. I have not read that thing since I submitted it.

Mr. PECORA. Well, for the purpose of refreshing your mind on that, let me read from the fore part of this report, the following sentence:

The following is, therefore, only an outline, and indicates the nature of the transactions which it is believed are irregular.

So that these practices you referred to as unethical, were also irregular, were they?

Mr. VERHELLE. On the face of the record as it appeared; yes.

Mr. PECORA. Now, in addition to the specific transactions that are enumerated by you in this report, there were many other transactions which you did not cover in this report because, as you have stated here:

A large number of them are written up and on file in our office.

Mr. VERHELLE. That is correct, sir.

Mr. PECORA. Were those transactions of the same general character as those which you specifically enumerate in this report?

Mr. VERHELLE. Well, I saw one or two pages of that other report a few days ago, and I don't recall the particular transactions enumerated in there, and so I am not sure whether they were of a similar character or of a different character.

Mr. PECORA. Well, where did you see that other report a few days ago?

Mr. VERHELLE. In the hands of—I don't know whether he is one of your men or one of Mr. Pratt's men.

Mr. PECORA. What is the name of the man?

Mr. VERHELLE. I don't know his name.

Mr. PECORA. What was your answer?

Mr. VERHELLE. I know him when I see him, but I don't know his name.

Mr. PECORA. I am assured that he was not one of our men.

Mr. VERHELLE. Well, he was one of Mr. Pratt's men.

Mr. PECORA. Where did you see him?

Mr. VERHELLE. He brought it over to me and asked me if I could—

Mr. PECORA (interposing). Where was he, here in Washington or in Detroit?

Mr. VERHELLE. He was in Detroit. He showed it to me and asked me if I could give him any information on the transaction that was covered in there.

Mr. PECORA. Before I proceed to further question you about this report, let me ask you: I note that the cover page of the exhibit in

evidence is marked "Copy No. 5." Would that indicate that at least five copies of this report were typewritten?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. To whom were they given?

Mr. VERHELLE. All were given to Mr. Mills.

Mr. PECORA. All of them were given to the one man?

Mr. VERHELLE. All but the copy which I kept.

Mr. PECORA. Well, apparently, this is the copy you kept, which is marked "Copy No. 5"?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Do you remember how many copies all told you caused to be made of this report?

Mr. VERHELLE. I am not certain, but I think there were six.

Mr. PECORA. And you gave the other five to Mr. Mills?

Mr. VERHELLE. No; there was one copy placed in the files of the Detroit Bankers Co., and the remaining copies were given to Mr. Mills, and I kept one copy myself.

Mr. PECORA. Were you asked by Mr. Mills to have four copies given to him?

Mr. VERHELLE. I do not recall, sir.

Mr. PECORA. What was the office which Mr. John R. Bodde held in this bank?

Mr. VERHELLE. Well, let me see—(the witness rising and starting toward Mr. Pecora as if to borrow the paper.)

Mr. PECORA. He was vice chairman of the board, wasn't he?

Mr. VERHELLE. When?

Mr. PECORA. In May of 1932.

Mr. VERHELLE. Yes; he was vice chairman of the board.

Mr. PECORA. Now, in this report, marked "Committee Exhibit No. 95", in evidence as of this date, under the caption "John R. Bodde", you say, in part, as follows:

And an improperly secured note of \$20,000 of the Greenville (Mich.) Bank, endorsed by John R. Bodde, was placed in the Peoples Wayne County Bank, and approved by Donald N. Sweeny, (the full collateral was \$7,950 on the date it was taken over). This note, although approved by the executive committee, should have been known to have been uncollectable by the officers recommending it. It is a part of a \$56,000 obligation on the part of an employee, W. L. White, who only recently was in charge of the discount department at the Peoples office. This employee had previously been given a \$750 increase in salary by order of John R. Bodde, against the judgment of the personnel and operating officers. No attempt has been made to determine the original purpose of this loan, nor of any other of the items endorsed by him.

You mean there that you made no attempt to find out who the actual beneficiary was for the discounting of this \$20,000 note?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Was it of interest to you at the time you made this investigation, to ascertain whether or not Mr. Bodde might have been the beneficiary of this discount?

Mr. VERHELLE. It might have been, but I did not believe it was up to the comptroller of the Detroit Bankers Co., being the business of the chairman of the board of the bank.

Mr. PECORA. You say further in this report, under the caption "John R. Bodde":

Incidentally our records indicate that the following officers and employees' notes are endorsed by John R. Bodde: Rooks, \$14,000; White, \$20,000; Erwin, \$3,000; Rooks, \$1,600; Frazier, \$10,200.

Now, did you have any information that these other officers' and employees' notes, endorsed by John R. Bodde, were notes which had been discounted for the benefit of Mr. Bodde?

Mr. VERHELLE. I do not recall that I had any opinions of any particular kind. I would say offhand that they were not, but I do not know, of course, that I had any opinion.

Mr. PECORA. In this report you say further:

On November 2, 1931, the account of John R. Bodde was overdrawn \$2,190. On November 3, 1931, Anthony Bodde, who then had a liability of \$9,106, reduced his note to \$7,500 and made a new note in the amount of \$6,062. The \$62 presumably represented interest. The \$6,000 was credited to the account of Anthony Bodde on that note, and a similar amount was checked out, and again the same amount credited to the account of John R. Bodde.

While the records indicate definitely that the \$2,000 borrowed by John H. Rooks was the same as that credited to Mr. Bodde's account, the \$6,000 in connection with the Anthony Bodde loan was not definitely checked to determine that this was an accommodation loan.

In saying that, didn't it indicate that you felt that at least some of these discounts of other officers' and employees' notes were made for the benefit of John R. Bodde?

Mr. VERHELLE. I certainly did not want to create that inference. I wanted to tell as much as I knew, based absolutely on the facts, and no more. That is, on the facts as indicated by the records. I did not interview those people. I merely personally reviewed the records and found statements in there to be in accordance with the records of the bank.

Mr. PECORA. Yes; but from your review made of the records and the facts you ascertained therefrom, didn't it at least raise the question in your mind as to whether or not some of these discounts of notes signed by others but endorsed by Mr. Bodde, were really for Mr. Bodde's benefit?

Mr. VERHELLE. It is pretty hard to say what questions would be raised in the mind of a man going over——

Mr. PECORA (interposing). Well, where the one interrogated is the one in whose mind the question arose it ought to be easy for that person to answer the question propounded here.

Mr. VERHELLE. Well, you are going back 2 years, and I think as to the questions which arose in my mind at that time, I would be hardly able to say.

Mr. PECORA. Now, among the other loan transactions that you investigated and made the basis for this report, committee exhibit no. 95 in evidence, this date, there was a loan account in the name of the Wise Chrome Products Co. Isn't that so?

Mr. VERHELLE. I presume so; yes, sir.

Mr. PECORA. And under the caption "Wise Chrome Products Co." in this report of yours, the first paragraph following is as follows:

On a "Dun" report dated October 9, 1931 it states that Dudley W. Bower, whose relationship with the bank has not been looked into, stated:

"That John R. Bodde and Donald N. Sweeny retained their interests but were not officially directors of the company."

Now, the company that you referred to there was the Wise Chrome Products Co., wasn't it?

Mr. VERHELLE. I suppose so.

Mr. PECORA. Now, you say that this company has owned an average balance during 1931 on commercial of \$770, and on pay roll of \$300; that it owes direct \$25,329, and indirect \$1,522. Collateral secured by assignments of accounts receivable \$8,065, a total of \$34,917. Then you go on further to say, as follows:

On February 13, 1931, the auditors reported as follows:

"The accounts of the Wise Chrome Products Co. show chronic overdrafts since the latter part of last December, the amounts ranging from about \$2,000 to \$7,500 daily. The manager reports that the overdrafts are authorized by loaning officers at the main office. He was unable to say whether or not interest would be collected on them. All overdrafts were covered on February 14, during this examination."

Now, the examination referred to in that quoted part of your report, was the examination then being made by the auditors of the bank, or was it an examination being made by the national bank examiner?

Mr. VERHELLE. I suppose it was while I was examining the records. Offhand, at least, that is my recollection.

Mr. PECORA. No; you are quoting here from a report dated February 13, 1931. "Made by the auditors."

Mr. VERHELLE. Let me see it, please.

Mr. PECORA. All right.

Senator COUZENS. You meant your own auditors there, because you do not call national bank examiners auditors, do you?

Mr. VERHELLE. No, sir.

Mr. PECORA. Just look at that paper.

Mr. VERHELLE (after looking at the paper). I believe that must have been our auditors' examination.

Mr. PECORA. Mr. Verhelle, do you know the loaning officers at the main office who authorized this so-called "lot of chronic overdrafts" of this company, the Wise Chrome Products Co.?

Mr. VERHELLE. I do not know, sir.

Mr. PECORA. Well, now, let us see if this will help you to recall who they were—

Mr. VERHELLE. It may be shown in that report.

Mr. PECORA. In your report, which has been received in evidence as committee exhibit no. 95, you say further as follows:

The auditors further report on June 14, 1932:

"Wise Chrome Products Co., pay-roll account, chronic overdrafts, and deposits to cover. Okayed by Mr. Sweeny on March 29, 1932.

"Wise Chrome Products Co. deposits to cover. Chronic O.D.'s—"

And that means, I take it, chronic overdrafts.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And then you go on to tell about the Wise Chrome Products account being overdrawn for a large amount from March 16, 1932, and say:

This overdraft is chronic, and is said to be authorized by Mr. Sweeny.

Does that serve to refresh your recollection as to who the loaning officers were at the main office of the bank that authorized those overdrafts?

Mr. VERHELLE. Well, it would be just as is stated there.

Mr. PECORA. You also say as follows in this report:

Were also holding a deposit ticket in the amount of \$3,000, dated February 14, 1931, indicating a deposit to the credit of Wise Chrome Products Co. at the Canton office; and the account of Donald N. Sweeny indicates a charge for a like amount. The deposit ticket appears to be in the writing of Donald N. Sweeny. The original deposit ticket was held in the down-town office, indicating that the deposit had been telephoned to the branch.

We hold a cashier's check of the American State Bank, made payable to John R. Bodde, in the sum of \$3,000, dated February 13, 1931, and in the endorsement of John R. Bodde, and crediting the amount to the Wise Chrome Products Co. This cashier's check represented the proceeds of a note of the Wise Chrome Products Co., made payable to John R. Bodde and discounted by him at the American State Bank, which note is still among the assets of the American State Bank.

Mr. PECORA. What does that indicate to you?

Mr. VERHELLE. Certainly it is a definite relationship.

Mr. PECORA. What is that?

Mr. VERHELLE. It is a definite relationship; certainly.

Mr. PECORA. Between whom?

Mr. VERHELLE. Between Mr. Bodde and that company at that time.

Mr. PECORA. Also between Mr. Sweeny and the company?

Mr. VERHELLE. Not necessarily, sir.

Mr. PECORA. Previously in the report you called attention to a Dun report dated October 9, 1931, a statement that John R. Bodde and Donald N. Sweeny retained their interests but were not official directors of the company, referring to the Wise Chrome Products Co.

Further in this report you say, as follows:

The statement of December 31, 1931, of the Wise Chrome Products Co. in the credit files indicate quick assets of \$180,000 against current liabilities of \$111,000. The company, it is understood, had previously experienced financial difficulties.

You recall that, don't you?

Mr. VERHELLE. I recall it now that you read it.

Mr. PECORA. What is that?

Mr. VERHELLE. I recall it.

Mr. PECORA. All of which helped to indicate to you that these loans and discounts were unsound from a banking standpoint?

Mr. VERHELLE. Indicated to me that the system in practice was necessary to properly control the handling of those loans.

Mr. PECORA. Now, you say further in this report:

There is also a mortgage to the Wise Chrome Products Co. on the plant located at 2480 Bellevue Avenue, originally appraised at \$65,500. The original mortgage was \$25,000, and an additional \$15,000 was granted on February 13, 1929, at which time an addition was built on the original plant. At this time the plant was appraised at \$90,000, the mortgage then being in the amount of \$40,000. Assessed valuation is \$38,860, and the increase was approved by A. H. Moody and George Wiley. Foreclosure proceedings were started in connection with this mortgage, the unpaid principal on January 20, 1932, being \$39,974; interest past due, \$3,453; taxes past due, \$3,166.

There is a memorandum in the file which states: "Do not foreclose. Commercial department says paying on loans." Mr. Eckert states that the increase was granted on the strength of the commercial department relationship; that Messrs. Sweeny and Bodde are thoroughly familiar with the account, and that approximately 2 weeks ago he checked with Mr. Sweeny regarding the foreclosing of this mortgage. Mr. Sweeney stated that nothing would be gained by doing that at this time, and that loans in the commercial department would be jeopardized by such action.

Do you know whether that mortgage was foreclosed eventually?

Mr. VERHELLE. No, sir; I do not know what eventually happened.

Mr. PECORA. I find in this report of yours under the caption "Donald N. Sweeny", the following:

Donald N. Sweeny has 21 mortgages as his own direct obligation, with a present balance of \$33,640, all of which are in arrears as to principal payments. He is also liable on a mortgage with A. H. Moody in the amount of \$30,000. The last principal payment on any of these was made in October 1930. This officer is also listed as an organizer of and/or an officer in two companies that have been brought to our attention. He also appears to be indirectly connected or affiliated with four other companies.

Do you recall what those other companies were?

Mr. VERHELLE. No, sir; I do not.

Mr. PECORA. Were they building companies?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Were they companies with which a man named Wilkus was affiliated?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You found many loans to those building companies and to other companies with which Wilkus and others of his associates were connected, didn't you?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And you covered them in this report to Mr. Mills?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And they were all loans that you questioned the soundness of from the credit standpoint?

Mr. VERHELLE. No; I don't believe that I said that. If I said it in there anywhere, why, I would have.

Mr. PECORA. You questioned the ethics of those loans?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Is that right?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And did you do that because of the connection which Mr. Sweeny had with those borrowers?

Mr. VERHELLE. I felt that no officer should ever be connected with any outside interests, and furthermore, that if an officer is connected with any outside interest he should not handle the business transactions between the bank and that company.

Mr. PECORA. You found in connection with some of those loans with which Mr. Wilkus was either directly or indirectly connected that increases in those loans had been made while other loans made to the same borrowers were in arrears?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. One of those loans referred to in your report under the caption "Donald N. Sweeny" is mentioned by you in your report as follows:

Charles H. Nevins, who is involved in approximately 58 mortgages in the mortgage department, a large number of which have had no payments since 1927, 1928, 1929, and 1930, is indebted to the commercial department in the sum of approximately \$10,000, which was obtained by him in the middle of 1931. According to the average balance card, average balance 1931, \$400. Such loan is, of course, out of order. His full relations with the General Building Corporation are not known, but the records indicate that he has had a mortgage assumed by the General Building Corporation.

That is the end of this extract from your report that I want to read to you. The General Building Corporation referred to here is one of the building corporations with which Mr. Wilkus was identified and with which Mr. Sweeny had some connection?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You say further in your report concerning Nevins:

Credit report in the credit folder regarding this individual, dated 1929, reports that he has numerous properties, equities, and contracts involving several thousands of dollars, in addition to an equity in the home at his address, all held jointly with his wife and not available for execution.

You say further in this report under the caption of "Donald N. Sweeny" as follows:

We have in the claims department a large item of Louis Chernoff. His address is that of these two companies. A further claim in connection with him arose under the name of Henry Nussbaum, who had borrowed on the notes of Chernoff. A mortgage on our books that had been assumed by the General Building Co. and subsequently assumed by H. Nussbaum, who is assumed to be Henry, a plumbing contractor, was subsequently assumed by another party, C. E. Anderson.

Louis Chernoff also appears to be involved with Gerson Cass, whose relationship with the bank is of so involved a nature as to practically preclude the furnishing of any information in connection with it. (In 1931 a reserve of \$222,000 was set up on loans of Gerson Cass and \$10,000 on a mortgage of Louis Chernoff.)

Can you tell us anything more about those loans that you have set forth in this portion of the report that I have just read to you?

Mr. VERHELLE. No, sir. I put everything into the report that I knew.

Mr. PECORA. Elaborate a little further than you have in this report upon the following statement in it:

Louis Chernoff also appears to be involved with Gerson Cass, whose relationship with the bank is of so involved a nature as to practically preclude the furnishing of any information in connection with it.

What did you mean by that?

Mr. VERHELLE. I meant that I could not figure it out.

Mr. PECORA. What is that?

Mr. VERHELLE. I meant that I could not figure it out with the time on hand, and so forth.

Mr. PECORA. Didn't it occur to you to ask Mr. Sweeny about Gerson Cass, in view of the fact that this loan to Chernoff that you refer to here was mentioned as the loan under the caption of Sweeny?

Mr. VERHELLE. No, sir. I based that report practically entirely on the record of the bank and did not go to those individuals in connection with anything. In fact, I believe I have in my preface there the statement to the effect that these are not accusations of any sort and must be considered in the spirit in which they are given, or something to that effect, with a view that those questions would be asked by Mr. Mills or that he would indicate to me that he would want to ask me those questions.

Mr. PECORA. Mr. Verhelle, you must have had some knowledge prior to the writing of this report of the relations in the past between Gerson Case and the bank, because you call attention here to the fact that in 1931 a reserve of \$222,000 was set up on the loans of Gerson Case and \$10,000 in a mortgage of Louis Chernoff.

Mr. VERHELLE. Well, I would get that from the records of the bank at some subsequent date, of course.

Mr. PECORA. Still in this portion of your report referring to loans under the caption of "Donald N. Sweeny" you make reference to certain loan accounts of parties by the name of Davis, C. Roy Davis. Do you recall that?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. This is the reference you made:

C. Roy Davis, a physician in West Fort Street, has a loan in the amount of approximately \$32,000 approved by Donald N. Sweeny. He has been indebted on various indirect small notes approved by A. H. Moody and Donald N. Sweeny. In November 1929 this amount reached a total of \$40,000, which was paid down to \$30,000 on April 10, 1930, increased to \$54,000 on June 26, 1930, paid down to \$26,000 on September 3, 1931, and increased to \$34,000 on October 5, 1931. This increase was granted while numerous other items were in arrears and which are still in arrears at this time. Indirect loans running from \$100 to \$500 commencing January 17, 1924 to the present time, \$801. There was no margin card in the file at the time this matter was checked. It was understood that Doctor Davis is a very close personal friend of Mr. Sweeny, and his address in connection with the various transactions in the bank is given as "Care of Donald N. Sweeny."

Senator COUZENS. He evidently was in his care.

Mr. PECORA. You say further in this report about the Davis loans:

C. Roy Davis is also involved in 42 mortgages on which he is the original mortgagor or have been assumed by him, totaling approximately \$79,500. These mortgages in a number of cases were the outgrowth of transactions with the Standard Home Building Co., David C. Wilkus, S. P. Wilkus, and R. and L. Construction Co. Seven of these mortgages have had no principal payments during 1931 and 1932. A notation on the credit card states "March 7, 1932. has \$13,000 savings account River Rouge." We have not been able to locate this account.

Mr. VERHELLE. I would like to definitely go on record, Mr. Pecora, as stating that the items in that report do not necessarily involve the principals on those notes. They may be wholly and entirely free from any question of the slightest criticism, and so forth, in connection Mr. Davis' name.

Mr. PECORA. Who are the principals you refer to?

Mr. VERHELLE. Well, I mean in this particular instance you mention Mr. Davis's name.

Mr. PECORA. Do you mean to imply that these loans might not have been for his benefit?

Mr. VERHELLE. For Mr. Davis' benefit?

Mr. PECORA. Yes.

Mr. VERHELLE. No, sir.

Mr. PECORA. What do you mean?

Mr. VERHELLE. I mean that I do not know the detail of that particular transaction particularly, but it is just natural to assume the relation was to Dr. Davis. He might have been a trustee or something else. I do not know. I merely called attention to it as being a subject that ought to be discussed.

Senator COUZENS (presiding). We will recess until 2 o'clock.

(Accordingly, at 12:50 p. m., a recess was taken until 2 p.m.)

AFTERNOON SESSION

The hearing was resumed at the expiration of the recess.
Senator COUZENS (presiding). The hearing will come to order.

TESTIMONY OF JOHN BALLANTYNE—Resumed

Mr. PECORA. Mr. Ballantyne, do you recall that some time in June 1930 six banks within the city of Hamtramck were acquired by the Detroit Bankers Co.?

Mr. BALLANTYNE. I know they were. Mr. Haas had full charge of that and took care of that. I had no part or parcel in it.

Mr. PECORA. Are you familiar with that acquisition?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. Those six banks so acquired were as follows, were they not—Peoples Wayne County Bank of Hamtramck, Hamtramck State Bank, the Dime Savings Bank of Hamtramck, Peoples Wayne County Bank of Hamtramck, the First National Bank of Hamtramck, and the First State Bank of Hamtramck?

I noticed that there were two banks that I named that apparently had the same name—Peoples Wayne County Bank of Hamtramck. The first of those had a capital of \$400,000; the second one a capital of \$100,000. The first one is the Peoples Wayne County Bank of Hamtramck, capitalization \$400,000, and the other one is the Peoples Wayne County Bank, Hamtramck, capitalization of \$100,000.

As one of the directors of the Detroit Bankers Co. at the time of the acquisition of those six banks by that company, did you vote for the acquisition of those banks?

Mr. BALLANTYNE. I presume I did.

Mr. PECORA. Those banks were regarded as being within the so-called metropolitan area of the city of Detroit, were they not?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. According to my information, the Hamtramck State Bank, which had a capital of \$200,000, was acquired on May 31, 1930, by the Detroit Bankers Co., through the exchange of 8,000 shares of its stock for 2,000 shares outstanding of Hamtramck State Bank stock. Does that accord with your knowledge and recollection?

Mr. BALLANTYNE. No; I have no recollection of it, Mr. Pecora.

Mr. PECORA. The Dime Savings Bank of Hamtramck, capitalized at \$100,000, I understand was acquired by the Detroit Bankers Co. on June 26, 1930, through the means or process of the Detroit Bankers Co. assuming a note of \$101,992.40 which was then outstanding on the part of certain directors of the Peoples Wayne County Bank who were acting as trustees for the benefit of the stockholders of that bank. Are you familiar with that?

Mr. BALLANTYNE. I just know about it; that is all. As a matter of fact, Mr. Pecora, Mr. Mark Wilson and Mr. Haass handled every one of those things and we relied on their judgment entirely. I was not very much interested. They were small banks, and they knew about them. They were savings banks, all of them, nearly, and I left it to those who knew better the facts in the matter.

Mr. PECORA. You feel, do you, that your knowledge of these acquisitions of these six State banks is so deficient that you cannot

answer any questions designed to bring out the facts and the circumstances surrounding the acquisitions?

Mr. BALLANTYNE. I am sure of that, Mr. Pecora.

Mr. PECORA. Who do you say could answer those questions?

Mr. BALLANTYNE. Mr. Mark Wilson, undoubtedly.

Mr. PECORA. As I recall your testimony when you were last on the stand before this committee, day before yesterday, you made a remark to the effect that in connection with the condition of the Detroit Bankers Co. in the year 1931 that company and the country were then going through perilous times. I believe that is the expression you used—"perilous times." Do you recall that?

Mr. BALLANTYNE. I may have.

Mr. PECORA. You meant by that expression to refer to the so-called depression?

Mr. BALLANTYNE. Yes.

Mr. PECORA. When did you first recognize the fact that the country was going through perilous times due to this depression?

Mr. BALLANTYNE. When did I first realize that we would have such a depression?

Mr. PECORA. When did you first realize that we were having such a depression?

Mr. BALLANTYNE. Oh, I couldn't just give you a date on it.

Mr. PECORA. No; I don't mean that you should put a specific date on it; but about when?

Mr. BALLANTYNE. It seemed to start just about the time our organization started.

Mr. PECORA. That was in January 1930?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. And continued and grew worse as time went on, from that time?

Mr. BALLANTYNE. Yes, sir; I think so.

Mr. PECORA. You will recall that according to your testimony before this committee, the 12 trustees who were regarded as the founders of the Detroit Bankers Co. and of whom you were one—

Mr. BALLANTYNE. Yes.

Mr. PECORA (continuing). Caused to be sent under date of October 5, 1929, a circular letter addressed to the stockholders of the five banks that were originally the banking units of the Detroit Bankers Co.?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. And you will recall further that you testified—and the documentary evidence itself shows—that in that circular letter the stockholders were told specifically that the Detroit Bankers Co. would pay a dividend at the annual rate of 17 percent?

Mr. BALLANTYNE. Yes.

Mr. PECORA. That dividend rate was fixed some time prior to October 5, 1929, was it not?

Mr. BALLANTYNE. It must have been.

Mr. PECORA. Because it is referred to in the circular letter which bears that date?

Mr. BALLANTYNE. Yes.

Mr. PECORA. The depression had not made its appearance up to October 5, 1929, had it?

Mr. BALLANTYNE. No, sir.

Mr. PECORA. So that when that dividend rate of 17 percent was fixed some time prior to October 5, 1929, it was based upon business and economic conditions that existed prior to the depression?

Mr. BALLANTYNE. Yes. I think the real reason for it—this is only my recollection—was that it was decided upon to match the existing dividend. We really thought that the grouping together of these banks would result in a great many economies. It was proposed and discussed; and I have heard it said that \$10,000,000 would be saved by the fusion of branches. It was expected, without knowledge of what was coming, that they would be able to make their dividend rate.

Mr. PECORA. In other words, that 17 percent dividend rate fixed prior to October 5, 1929, was based in part, if not entirely, upon a consideration of the earnings of those five banks for some period of time prior to October 1929?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And also upon the history of the dividend paid by those five banks prior to October 1929?

Mr. BALLANTYNE. Yes; plus economies that we anticipated would result from the consolidation.

Mr. PECORA. Those five banks were as follows, were they not—the First National Bank of Detroit, the Peoples Wayne County Bank, the Bank of Michigan, the Peninsular State Bank, and the Detroit Trust Co.? Those were the five original banking units of the Detroit Bankers Group?

Mr. BALLANTYNE. Yes.

Mr. PECORA. The only way in which the Detroit Bankers Co. would be able to pay dividends upon its stock would be through the receipt by it of dividends declared by the unit banks whose stock the company owned?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. So that fixing the 17-percent rate, you expected to receive in dividends from the unit banks enough to pay a dividend at the rate of 17 percent per annum on the Detroit Bankers Co. stock?

Mr. BALLANTYNE. Yes.

Mr. PECORA. You know that for the 5-year period 1925 to 1929, both inclusive, the average earnings of the First National Bank were \$1,391,548 per annum?

Mr. BALLANTYNE. I did not know that.

Mr. PECORA. Did you know that the average dividend paid per annum in that 5-year period by the First National Bank amounted to \$975,000 a year?

Mr. BALLANTYNE. I did not know that.

Mr. PECORA. Did you know that during the year 1930 the dividend paid by that bank to the Detroit Bankers Co. as the owner of its capital stock aggregated \$1,137,307?

Mr. BALLANTYNE. Well, if you have the figures there—

Mr. PECORA. Or in excess, by approximately \$150,000, of the average dividend paid during the preceding 5-year period before the depression occurred?

Mr. BALLANTYNE. I will take your word for it, that that is so.

Mr. PECORA. Do you know what the aggregate amount of the dividends was that were paid by the First National Bank for the year 1931?

Mr. BALLANTYNE. I do not.

Mr. PECORA. To the Detroit Bankers Co.?

Mr. BALLANTYNE. I do not.

Mr. PECORA. The year 1931 was, generally speaking, a worse business year than the year 1930, was it not?

Mr. BALLANTYNE. I am wondering—the year 1931 was the year that I was chairman of the board of the First National Bank. During that year I think there were more care and attention given to its credits than in any previous year, and losses were avoided that might have affected it materially; but I do not remember just what was the date—

Mr. PECORA. During the year 1931, according to the annual report for that year of the Detroit Bankers Co. to its stockholders, you were chairman of the governing committee of the First Wayne National Bank?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Mr. Verhelle, by gesture, indicates that he disagrees with that statement of yours.

Mr. VERHELLE. Shall I answer that?

Mr. PECORA. Yes.

Mr. VERHELLE. The officers as given here are the current officers as of that time. Mr. Ballantyne became chairman of the board of the First National Bank some time during May of 1931 up to December 31, 1931, at which time he became chairman of the governing committee of the First Wayne National Bank.

Mr. PECORA. Which represented a consolidation of the First National Bank of Detroit with the Peoples Wayne County Bank; is that right?

Mr. VERHELLE. Yes.

Mr. PECORA. The question I asked you, Mr. Ballantyne, was this, in substance: Is it not a fact that business conditions generally throughout the country in the year 1931 were worse than they had been in the year 1930?

Mr. BALLANTYNE. Well, I would say so. I would say they were very apt to be.

Mr. PECORA. Was not that especially reflected in our banking institutions?

Mr. BALLANTYNE. I do not think any such conditions could fail to have affected the banking institutions.

Mr. PECORA. What is your recollection as to the approximate amount of dividends paid by the First National Bank to the Detroit Bankers Co. for the year 1931?

Mr. BALLANTYNE. I could not give you that. I have no recollection on it whatsoever.

Mr. PECORA. I have told you that for the year 1930 the dividend paid amounted to \$1,137,000-odd. Is it your recollection that in the following year, 1931, the bank of which you were an officer and director paid dividends substantially in excess of the dividends it had paid in 1930?

Mr. BALLANTYNE. I do not believe I could recall that, Mr. Pecora. I was an officer in that bank without power or executive authority.

I had given my sole attention during my term of office in that bank to the credits of the bank, a matter that I thought was the whole root of the banking business, and I gave my entire attention to that. Any statements that were made by me were based on information and belief and my confidence in the officers who made the statement.

Mr. PECORA. Would it surprise you to know that in the year 1931 the First National Bank in Detroit paid to the Detroit Bankers Co. dividends approximately three times the amount it paid in the year 1930? I will go further—dividends more than four times the amount of the dividends it paid in 1930?

Mr. BALLANTYNE. I do not know that it would.

Mr. PECORA. It would not surprise you to know that?

Mr. BALLANTYNE. It would surprise me; yes.

Mr. PECORA. And you think that dividends exceeding four times the amount of dividends paid in 1930 would be extraordinary?

Mr. BALLANTYNE. They would be.

Mr. PECORA. Have you any records which will indicate to you precisely the amount of dividends that the First National Bank paid to the Detroit Bankers Co. for the year 1931?

Mr. BALLANTYNE. I have no records.

Mr. PECORA. Our records and our research show that the amount of those dividends in 1931 was \$4,649,642. As you sit there now, assuming that this figure is correct, do you recall any facts and circumstances which warranted the payment, having in mind business and banking conditions as they were in 1931, of that dividend of over \$4,600,000 by the First National Bank?

Mr. BALLANTYNE. I could not have any idea on that subject. I was, as I say, up to the end of that year, acting as chairman of the board without executive authority. I was giving all my time to the question of credits in the bank. Julius died, I think, in May of that year, and I was asked to continue the position. That is my recollection. I do not have any personal knowledge of what the dividends were.

Mr. PECORA. As a member of the board of the bank you took part in the action which led to the declaration of dividends, did you not?

Mr. BALLANTYNE. I presume I must have, but it has not registered in my mind.

Mr. PECORA. Did you act as a director?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And you voted on the matter of the declaration of dividends without some precise knowledge or even a general knowledge of the circumstances and the business condition of the bank?

Mr. BALLANTYNE. Mr. Pecora, I do not think I ever voted for a dividend that was not earned or that I did not believe was earned.

Mr. PECORA. Had this dividend of over four and a half million dollars been earned?

Mr. BALLANTYNE. I am not prepared to say.

Mr. PECORA. What is that?

Mr. BALLANTYNE. I am not prepared to say.

Mr. PECORA. What can you tell us about the declaration of these dividends of over four million six hundred thousand in the year 1931?

Mr. BALLANTYNE. I cannot tell you a thing.

Mr. PECORA. Was the matter of such insignificant value that you paid no attention to it at the time?

Mr. BALLANTYNE. I cannot alter my answer, sir. I am not withholding anything from you. I assumed, if any dividends were paid, they were paid out of earnings; and if I passed on it, I had information to that effect which led me to believe that the dividends were earned.

Mr. PECORA. Did you consider, Mr. Ballantyne, that a director of a bank could exercise any single duty or function of any greater importance than declaring dividends for the bank?

Mr. BALLANTYNE. I doubt it.

Mr. PECORA. Appreciating, then, as I am assuming you did, the importance of that function and of that duty, did you, as a director of the First National Bank in Detroit, vote for the declaration of these dividends with full knowledge of the facts and circumstances, including earnings, and as to whether or not those facts and circumstances warranted the declaration and payment of those dividends?

Mr. BALLANTYNE. I do not know whether I voted or not; but, in any event, my recollection is not very clear on that; and, in any event, Mr. Pecora, I was informed and believed they were earned.

Mr. PECORA. Who informed you that they were earned?

Mr. BALLANTYNE. The officers of the bank.

Mr. PECORA. Who?

Mr. BALLANTYNE. The president, I presume.

Mr. PECORA. Have you a clear recollection of that?

Mr. BALLANTYNE. No; I have no clear recollection of anything concerning it.

Mr. PECORA. Up to the present time I do not recall your making any answer concerning matters that I have questioned you about involving the discharge of important duties as an officer and director of the bank as to which you seemed to have any clear recollection. Is that due to the fact that your recollection is poor generally?

Mr. BALLANTYNE. There was a good deal going on then, Mr. Pecora; and I don't know whether my memory is poor or not as a rule. It is poor as to what you are asking me, but not purposely poor.

Mr. PECORA. I am not asking you about any insignificant thing.

Mr. BALLANTYNE. I know you are not.

Mr. PECORA. I am asking you about some very important things.

Mr. BALLANTYNE. Yes.

Mr. PECORA. About the discharge of important duties by you as an officer and director of the bank.

Mr. BALLANTYNE. Yes.

Mr. PECORA. And your recollection as to those things is very poor?

Mr. BALLANTYNE. Apparently.

Mr. PECORA. To what do you ascribe that? I have tried to find out if your recollection generally is poor, and you say it is not.

Mr. BALLANTYNE. I probably ascribe it to the fact that, as stated to you, during my term of office I was devoting all my time to assist in the watching of the credits of the bank and taking care of the liquidation of the bank. That was what I was focusing on; and my memory is certainly poor in this particular thing you are speaking about. After all, that is the basis of a bank, you know.

Mr. PECORA. Would not the discharge of your duties in looking after the credits of the bank necessarily keep you in touch with the earning power of the bank?

Mr. BALLANTYNE. Not necessarily.

Mr. PECORA. It would not?

Mr. BALLANTYNE. No.

Mr. PECORA. Do you recall discussions at meetings of the board of directors of the bank in which the question of the declaration of dividends was involved?

Mr. BALLANTYNE. I do not recall a meeting.

Mr. PECORA. During the year 1932 would you say that business conditions had become worse generally than they were during the year 1931?

Mr. BALLANTYNE. I would say they were no better.

Mr. PECORA. Would you say they were worse?

Mr. BALLANTYNE. Yes.

Mr. PECORA. All right. Why didn't you answer the question specifically? You could answer it, because you did answer it on the second time, but not the first.

Mr. BALLANTYNE. I think that on June 3 of that year the values in the United States were at the lowest point for all time—on June 3 of 1932.

Mr. PECORA. Mr. Ballantyne, do you know what dividends were declared and paid by the First National Bank in the year 1932 to the Detroit Bankers Co.?

Mr. BALLANTYNE. I don't remember.

Mr. PECORA. Our research shows that the total amount of dividends paid by that bank to the Detroit Bankers Co. in 1932 were \$2,838,955, or nearly three times the average yearly dividends paid by that bank during the 5-year period from 1925 to 1929, both inclusive, when there was no depression.

Mr. BALLANTYNE. Mr. Pecora, in May of 1931, I think it was, the president of the bank died, and—

Mr. PECORA (interposing). I think we know that pretty well by this time.

Mr. BALLANTYNE. Did I tell you that before?

Mr. PECORA. Now, did you?

Mr. BALLANTYNE. I don't recall.

Mr. PECORA. Don't you recall whether or not you told us before that Mr. Haas had died in May of 1931?

Mr. BALLANTYNE. Yes.

Mr. PECORA. I have a distinct recollection of having heard of it at least 15 or 20 time from you.

Mr. BALLANTYNE. From me?

Mr. PECORA. Yes.

Mr. BALLANTYNE. No.

Mr. PECORA. That is one thing you are willing to admit, that in May of 1931 Mr. Haas died, is it?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. Very well. I am willing to accept that as a fact from now on.

Mr. BALLANTYNE. Yes. Now, what is the question?

Mr. PECORA. Your reference to Mr. Haas' death has even driven it out of my mind, so I will have to ask the committee reporter to read it.

(The question was read by the committee reporter as follows:)

Mr. PECORA. Our research shows that the total amount of dividends paid by that bank to the Detroit Bankers Co. in 1932 were \$2,838,955, or nearly three times the average yearly dividends paid by that bank during the 5-year period from 1925 to 1929, both inclusive, when there was no depression.

Mr. PECORA. Mr. Ballantyne, does that information surprise you?

Mr. BALLANTYNE. Well, partially; yes.

Mr. PECORA. What do you say?

Mr. BALLANTYNE. Partially. You know the bank was somewhat larger—

Mr. PECORA (interposing). Yes; it became merged with the Peoples Wayne County Bank.

Mr. BALLANTYNE. I beg pardon?

Mr. PECORA. I say, it became merged.

Mr. BALLANTYNE. But prior to that it was larger, too. I think about \$30,000,000 were added the year I joined the bank. So it might have made a difference in the earnings.

Mr. PECORA. Do you recall having acted as a director of the bank in 1932 on the resolutions declaring dividends for 1932 that were paid by this bank?

Mr. BALLANTYNE. I do not. But I may have done so.

Mr. PECORA. You became president of the Detroit Bankers Co. in May of 1931 and served in that capacity until about the middle of 1932, didn't you?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. In 1931 isn't it a fact that the Detroit Bankers Co. paid dividends at the rate of 17 percent upon its capital stock?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Which was at the same rate that dividends were paid by it for the year 1930?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. Do you recall that toward the latter part particularly of the year 1931 national bank examiners found fault with the liberality of the dividends that were being declared?

Mr. BALLANTYNE. In 1931?

Mr. PECORA. Yes; in 1931.

Mr. BALLANTYNE. At the close of 1931?

Mr. PECORA. Before the close of 1931, during the year 1931 in fact.

Mr. BALLANTYNE. During my office in the First National Bank or later?

Mr. PECORA. Also during the time that you were president of the Detroit Bankers Co.

Mr. BALLANTYNE. Well, I have a recollection that bank examiners criticized the situation; yes.

Mr. PECORA. What was the basis of their criticism?

Mr. BALLANTYNE. Well, I think, if I recall it correctly, they indicated that they might have to stop the payment of dividends if the improvement was not greater.

Mr. PECORA. Nevertheless, in the face of that criticism of national bank examiners, the Detroit Bankers Co. paid 17 percent dividends in the year 1931?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. And it made no reduction in dividends.

Mr. BALLANTYNE. No.

Mr. PECORA. In order to enable it to pay that dividend in 1931, do you know that some of the units of the Detroit Bankers Co. had to declare special dividends in addition to their regular dividends?

Mr. BALLANTYNE. I do not know that, Mr. Pecora.

Mr. PECORA. Why wasn't heed given during the year 1931 to the criticisms of national bank examiners with regard to dividends?

Mr. BALLANTYNE. I don't know that I am the one to answer that question, Mr. Pecora.

Mr. PECORA. You were, during the latter half of that year, the executive head of the Detroit Bankers Co., and if that does not make you the one to answer the question, holding the responsible position that you did, I would like to know who should answer it.

Mr. BALLANTYNE. I was in that position less than 2 months before the 6-months period of that year; and by the end of the year I did cut down the dividend.

Mr. PECORA. You cut it down by the end of the year, do you say?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Well, didn't you say before, what I understand is the fact that during the entire year 1931 the Detroit Bankers Co. paid dividends at the rate of 17 percent on the par value of its stock?

Mr. BALLANTYNE. Yes.

Mr. PECORA. So that its dividends were not cut down that year at all, were they?

Mr. BALLANTYNE. Oh, no. But in 1932 the dividend was cut down.

Mr. PECORA. I know that the dividend was cut down in 1932, but I am talking now about 1931.

Mr. BALLANTYNE. I was only president then of the Detroit Bankers Co. for 6 months.

Mr. PECORA. For nearly 8 months during the year 1931, wasn't it?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. During the time that those criticisms were being made by national bank examiners?

Mr. BALLANTYNE. No.

Mr. PECORA. To what are you now saying "No"?

Mr. BALLANTYNE. The only criticism I had from the national bank examiners that I can recall was when I was with the First National Bank. And they did criticize then. Now, what the nature of the criticism was, again my memory is not clear. But they did indicate then that they might have to stop payment of dividends unless there was an improvement.

Mr. PECORA. Now, it appears that there was an examination made of the First National Bank as of September 25, 1932, by national bank examiners. That was the year in which the First National Bank paid dividends of over \$4,600,000.

Mr. BALLANTYNE. Yes.

Mr. PECORA. And in the report of that examination let me say that the examiner stated that "The dividends should be curtailed." Now, was that brought to your attention?

Mr. BALLANTYNE. I have just stated to you that I recollect about that.

Mr. PECORA. For the year 1931 this is. I am now referring to an examination made as of September of 1931.

Mr. BALLANTYNE. Well, weren't we talking about 1931 before?

Mr. PECORA. Yes; but I understood you to say that you did not get a criticism until some time in 1931.

Mr. BALLANTYNE. Oh, no. I wasn't connected with the First National Bank then.

Mr. PECORA. Well, what office did you hold in the First National Bank in the year 1931?

Mr. BALLANTYNE. Chairman of the board.

Mr. PECORA. You were its chairman of the board?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. As chairman of the board was there brought to your notice any criticisms made by national bank examiners at any time during the year 1931?

Mr. BALLANTYNE. Oh, yes. That was what I was speaking about.

Mr. PECORA. Some of those criticisms were directed to the dividend-paying policy of the bank?

Mr. BALLANTYNE. Yes. And it was indicated that they might have to stop our dividends unless there was improvement, as I have already testified.

Mr. PECORA. Was that criticism of the bank made as a result of the examination as of September 25, 1931, brought to your notice; or was there brought to your notice what I now read to you:

This report reflects a very unsatisfactory condition, showing classified loans and doubtful paper aggregating approximately the surplus and profit of the bank, without taking into consideration a large amount of slow assets. This condition has been brought about by two major causes, namely, the general business depression, and the shrinkage in the inflated value of real estate, and poor management.

In the first instance Detroit has suffered along with other large cities from the depression, and more particularly because of the slowing down of the motor industry. The city has a large floating population, relying to a great extent on this one industry for its income. When this source of income is materially reduced, all other branches of business are to some extent affected.

This condition has been reflected to a very marked degree in the value of real estate. Real estate values of 2 years ago have been cut in half, with little activity on this basis. Large buildings have not shown any market whatever. Foreclosures and receiverships are numerous.

The Detroit Clearing House Association have agreed to withhold from the market any parcels of real estate received through foreclosure, for 6 months, hoping by this procedure to increase values.

Mr. BALLANTYNE. I do not recall that language. I think about that time the banks were consolidated, Mr. Pecora. In November of that year the consolidation took place.

Mr. PECORA. No; it did not take place until the 31st of December of that year, did it?

Mr. BALLANTYNE. Well, it was done in November. The examiners came back and stayed with us, and the consolidation was effected.

Mr. PECORA. This report, from which I have read to you, is the report of the examination only of the First National Bank made as of September 25, 1931.

Mr. BALLANTYNE. Well, in November of that year the examiners came to us, and we decided, whether as a result of that report or not, I cannot recall, but it was decided that we should have this consolidation. I think it was about time that the real-estate committee was formed to intelligently handle real-estate operations; and under the jurisdiction of Mr. Holden and Mr. Drennen, and some other gentlemen, the write-off was made. We came to the Comptroller about that situation and talked with him.

Mr. PECORA. Now, this report has nothing to do with any consolidation.

Mr. BALLANTYNE. Well, it resulted in the consolidation.

Mr. PECORA. What was that?

Mr. BALLANTYNE. It must have resulted in the consolidation, must it not?

Mr. PECORA. Now, Mr. Ballantyne, this report is simply the report of the examination of the First National Bank made as of September 25, 1931?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And does not concern itself in any way with the consolidation that was effected on December 31, 1931. Isn't that apparent to you?

Mr. BALLANTYNE. No.

Mr. PECORA. It is not?

Mr. BALLANTYNE. No.

Mr. PECORA. You say it is not?

Mr. BALLANTYNE. Oh, no.

Mr. PECORA. How could a report of national-bank examiners of the First National Bank of its condition on September 25, 1931, have anything whatsoever to do with the consolidation that had not taken place?

Mr. BALLANTYNE. With a consolidation that had not taken place?

Mr. PECORA. Yes.

Mr. BALLANTYNE. It had a great deal to do with the consolidation that took place.

Mr. PECORA. This report had nothing to do with that consolidation, did it?

Mr. BALLANTYNE. Well——

Mr. PECORA (continuing). In other words, the national-bank examiner who made this report did not, in the report or in his examination of the First National Bank as of September 25, 1931, have anything to do with the consolidation that took place at the end of the year, did it?

Mr. BALLANTYNE. Well, they were back in November. We planned a consolidation prior to November.

Mr. PECORA. Mr. Ballantyne, I am certainly trying to be as indulgent with you as I possibly can. I want to shorten your examination in deference to your wishes in order that you may be permitted to return to your home.

Mr. BALLANTYNE. Yes.

Mr. PECORA. But if you are going to answer questions by referring to matters the questions do not call for, I am afraid you will frustrate me in my purpose.

Mr. BALLANTYNE. My dear sir, my dear sir, we would not have taken those steps to consolidate those banks for any other reason than just what I am telling you.

Mr. PECORA. But the national-bank examiner making this report does not refer in any way to any consolidation, not even to a contemplated one, does he?

Mr. BALLANTYNE. He had not, probably, thought of the way out.

Mr. PECORA. And it was not his business to think of the way out, was it? That was up to the officers of the bank, to find a way out.

Mr. BALLANTYNE. Well, we thought the way out.

Mr. PECORA. I am questioning you solely upon the report made by the national-bank examiner.

Mr. BALLANTYNE. Yes.

Mr. PECORA. As of September 25, 1931, of the First National Bank.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Don't you understand that?

Mr. BALLANTYNE. I perfectly understand it.

Mr. PECORA. Then, won't you please be guided in your answers by that understanding?

Mr. BALLANTYNE. I am trying to be so guided, Mr. Pecora.

Mr. PECORA. Now, let me ask you again—and, you know, Mr. Ballantyne, I have a lot of patience and am perfectly willing to expend it even if it requires your attendance here all of next week, but I am trying, all for your sake, to conclude your examination as speedily as possible in order that you may return home; but if you won't cooperate with me in that respect, and continue to go off on other subjects, I will simply stick to it.

Mr. BALLANTYNE. I am not hindering you. I am trying to be as honest with you as I like to be with anyone else. I am giving you the benefit of my memory of the situation. I cannot remember dates, perhaps, as well as some other men can, but I do know that toward the end of 1931 we chose to make this consolidation in order and for the sole purpose of getting something more back of the figures; and it must have been influenced to some extent, as you will admit, by the report that you have there.

Mr. PECORA. Mr. Ballantyne, at this time I simply want to question you and get answers from you with regard to this report made by the national bank examiner of his examination of the First National Bank.

Mr. BALLANTYNE. Yes.

Mr. PECORA. You understand it is a report on his examination made as of September 25, 1931?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Will you please, for the time being, ignore anything that happened after that date. I will come to those subsequent events shortly.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Now, I want to ask you this question: Do you agree with the remarks made by the national bank examiner in his report

of the examination of the First National Bank as of September 25, 1931, and which remarks I have read in full to you?

Mr. BALLANTYNE. I think I made—would you mind showing me that again, Mr. Pecora?

Mr. PECORA. Here it is. You will find it under the caption "General Remarks." Just read it all and then make your answer to the question.

Mr. BALLANTYNE. Was this in the report, or was it on yellow sheets?

Mr. PECORA. No, it is not in the confidential portion of the report.

Mr. BALLANTYNE (after reading the portion referred to of the report). I think I would agree with that.

Mr. PECORA. Do you mean that you would agree with these general remarks of the national bank examiner?

Mr. BALLANTYNE. Yes. But, understand, Mr. Pecora, when an examiner comes in in September and makes a report on the First National Bank, we would probably not receive a copy of that report for weeks, or maybe a month or two. But I think I may state to you truly that that report precipitated the consolidation of those two banks. I think and honestly believe that that was what it was.

Mr. PECORA. Even though you may not have received a copy of the report of this examination until several weeks after it was made, the fact is that the general remarks of the examiner, with the substance of which you have just stated you agree?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Referred to conditions in the bank which were already known to you even before the national bank examiner called them to your attention?

Mr. BALLANTYNE. Mr. Pecora, I would say to you that times were very difficult and very trying. I was literally praying all the time for a wink of sunshine to come along and restore values. I cannot put the day or the date from my memory on all that happened. But I do know that that report that you have is directly coupled up with the consolidation.

Mr. PECORA. I know that now, too, because you have told me that half a dozen times in the last 15 minutes.

Mr. BALLANTYNE. But you did not seem to believe me, yet it is true nevertheless.

Mr. PECORA. I haven't doubted it. I simply marvel at the fact that you keep referring to it when I do not ask you any questions about it.

Mr. BALLANTYNE. Well, didn't you indicate that you did not believe it?

Mr. PECORA. No. What I had asked you last, Mr. Ballantyne, in substance is this: That the condition of the bank, as indicated in his general remarks by the national bank examiner who examined it as of September 25, 1931, was a condition that was already known to you even before you received any copy of the report of the national bank examiner.

Mr. BALLANTYNE. Oh, no.

Mr. PECORA. Do you say it was not?

Mr. BALLANTYNE. Oh, no; not in general terms. It could not be required an examination to disclose those facts.

Mr. PECORA. Did it require an examination——

Mr. BALLANTYNE (interposing). I might have felt apprehensive. If you ask me that question I will say yes.

Mr. PECORA. Mr. Ballantyne, what salary were you getting as the executive officer of this First National Bank?

Mr. BALLANTYNE. It was \$25,000 a year.

Mr. PECORA. And in addition to that you were getting a salary at the rate of \$50,000 a year from——

Mr. BALLANTYNE (interposing). Oh, no, no.

Mr. PECORA (continuing). The Detroit Bankers Co.?

Mr. BALLANTYNE. Oh, no.

Mr. PECORA. What was your salary from the Detroit Bankers Co.?

Mr. BALLANTYNE. It was \$50,000 from the Detroit Bankers Co., and I never asked for that. I was drawing \$25,000 until I went to the Detroit Bankers Co. They increased it to \$50,000. The former president had been getting \$100,000. I had the position for a few months at \$50,000 and then cut it down to \$40,000.

Mr. PECORA. All right. As the executive head of the bank in September of 1931——

Mr. BALLANTYNE (interposing). The executive head of which bank?

Mr. PECORA. Of the First National Bank.

Mr. BALLANTYNE. I wasn't the executive head of the First National Bank.

Mr. PECORA. Weren't you the chairman of its governing board?

Mr. BALLANTYNE. Of the First National Bank?

Mr. PECORA. Yes.

Mr. BALLANTYNE. Why, no; not at the end of 1931. I was a member of the board and chairman of the board of the First National Bank.

Mr. PECORA. You were chairman of the board of the First National Bank?

Mr. BALLANTYNE. Yes; but with no executive authority.

Mr. PECORA. Well, as chairman of the board of the First National Bank did you consider yourself as having only nominal power?

Mr. BALLANTYNE. I thought so. The executive control rested with the president of the bank. I think the bylaws will indicate that.

Senator COUZENS. Who was the president?

Mr. BALLANTYNE. Mr. Chittenden for a part of the year, and Mr. Douglas for a part of the year.

Mr. PECORA. Did you learn for the first time in 1931 from the copy of this report of the national bank examiner of his examination of the First National Bank that——

A very unsatisfactory condition existed with regard to classified loans and doubtful paper, aggregating approximately the surplus and profit of the bank without taking into consideration a large amount of slow assets.

Did you learn that for the first time through the medium of the national bank examiner's report?

Mr. BALLANTYNE. Of the actual condition, yes. I could not get it in any other way than by an examination.

Mr. PECORA. You could not know it as a consequence of your being the chairman of the board?

Mr. BALLANTYNE. No.

Mr. PECORA. Does the chairman of the board hold a position of such slight consequence that he could not know of the general condition of the bank?

Mr. BALLANTYNE. I have said to you that if you ask me if I was apprehensive, I would say yes. But if you ask me specifically if I knew these facts I have got to say no.

Mr. PECORA. Did you know the facts with regard to the condition of the real estate market in Detroit at that time without waiting for this report of the national bank examiner and his allusion to it?

Mr. BALLANTYNE. I knew that the thing was slipping, yes.

Mr. PECORA. Now, in March of 1931 were you connected in any capacity with the First National Bank in Detroit?

Mr. BALLANTYNE. In March?

Mr. PECORA. Yes, in March of 1931?

Mr. BALLANTYNE. I wonder if that was the time that I went with them? Was it? You can possibly tell me better than I can. [Mr. Verhelle hands the witness a paper.] Yes, I was connected with the bank in March 1931.

Mr. PECORA. In what capacity?

Mr. BALLANTYNE. As chairman of the board.

Mr. PECORA. As chairman of the board?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. And you were chairman of the board of that bank then for sometime during the year 1930, weren't you?

Mr. BALLANTYNE. I acted as chairman without salary after I went upstairs. I was temporarily asked to do that.

Mr. PECORA. Now, I have before me a copy of the report of the national bank examiner of his examination of the First National Bank in Detroit made as of February 21, 1931, in which he calls attention to the following: That the total surplus fund and net undivided profits and all reserve accounts in the bank amounted to \$17,298,821.70. And that the aggregate amount of slow loans he found in the bank were \$16,229,000; and that the aggregate amount of doubtful loans, with loss probable, on hand, he estimated at \$1,687,000; and the estimated amount of losses \$1,828,660, which aggregate exceed by about \$2,000,000 the total amount of surplus, undivided profits, and reserve accounts of the bank at that time. Were you familiar with that condition?

Mr. BALLANTYNE. I knew there were a lot of slow loans there.

Mr. PECORA. Were you familiar with that condition then? I mean the condition I have stated from the examiner's report as of February 21, 1931?

Mr. BALLANTYNE. Not specifically; but I knew there were a lot of slow loans, not exactly all, but I knew there were a lot of doubtful loans, border-line loans, but as to the exact figures I do not recall them.

Senator COUZENS. Isn't it true, Mr. Ballantyne, that bank officers do not know the condition of their bank until the Government examiner makes the examination?

Mr. BALLANTYNE. They know it better then, Senator.

Senator COUZENS. They know it what?

Mr. BALLANTYNE. They know it better then.

Senator COUZENS. Although the officials of the bank are on the job all the time and the bank examiner comes in only occasionally, the bank examiner——

Mr. BALLANTYNE (interposing). Twice a year.

Senator COUZENS (continuing). Shows you the real condition of your bank?

Mr. BALLANTYNE. Senator, I told Mr. Pecora that if he asked me if I was apprehensive I would answer in the affirmative.

Senator COUZENS. I am not talking about that.

Mr. BALLANTYNE. But actual knowledge, no, I could not do it until the bank examiner or some other examiner went through and specifically made an examination of the bank.

Senator COUZENS. As a matter of fact, the records show that a large service fee was paid by these unit banks to the Detroit Bankers Co. for doing their auditing. Is that not true?

Mr. BALLANTYNE. Yes. I do not know how much that was.

Senator COUZENS. It was a substantial fee, wasn't it?

Mr. BALLANTYNE. Yes; I presume so.

Senator COUZENS. And so you paid the Detroit Bankers Co., or these units did, a substantial fee for auditing and keeping them informed as to the condition of their bank? Is that true?

Mr. BALLANTYNE. Keeping them informed, not as to the quality of the assets, Senator.

Senator COUZENS. What as to?

Mr. BALLANTYNE. The auditors go through and check on the correctness of the figures.

Senator COUZENS. And that is all?

Mr. BALLANTYNE. That is all.

Senator COUZENS. But you said in substance that you sit there, and your loaning officers sit there, and the other officers sit in there day after day, with salaries of \$25,000 to \$50,000 a year, and they do not know the condition of the bank until some examiner comes around at \$10,000 a year and tells them?

Mr. BALLANTYNE. I am not saying I did not know it, did not know anything about it.

Senator COUZENS. Well, I know that.

Mr. BALLANTYNE. I say I was apprehensive. Who wouldn't be that was in the bank?

Senator COUZENS. I am not asking you about whether you were apprehensive.

Mr. BALLANTYNE. But exact knowledge, Senator, I could not give you exact knowledge about it without an examination.

Senator COUZENS. Is that true of all banks?

Mr. BALLANTYNE. I think it is quite largely true of any bank.

Senator COUZENS. So you want this committee to understand that the public are relying almost solely as to the condition of the bank on the examination made by Government officials; is that correct?

Mr. BALLANTYNE. No; not entirely.

Senator COUZENS. How correct is it?

Mr. BALLANTYNE. I tell you, Senator, if you had asked me at any time about the Merchants National Bank I could have told you. I could tell the bank examiner all there was about the bank. But this was another proposition. It would take a man a year to get familiar

with a bank of that size, a man working hard. You have got to remember that I was in there just a short time at best.

Senator COUZENS. No; I was not talking about that specific case. I was asking if that was generally so, and you said yes, that was generally so.

Mr. BALLANTYNE. Don't try to trap me, please, Senator.

Senator COUZENS. I am not trying to trap you; I want the facts.

Mr. BALLANTYNE. I could have told about my own bank perfectly well without any bank examiners ever coming to it.

Mr. PECORA. You were chairman of the board of this bank during all of the year 1930 and all of the year 1931?

Mr. BALLANTYNE. No.

Mr. PECORA. Didn't that put you in a position——

Mr. BALLANTYNE (interposing). I was not chairman of the board all during the years 1930 and 1931.

Mr. PECORA. How long were you chairman of the board?

Mr. BALLANTYNE. From May 1, 1930.

Mr. PECORA. Until when?

Mr. BALLANTYNE. Well, I should say from May 1, 1930, to January 16, 1932.

Mr. PECORA. All right; that embraces the greater part of the years 1930 and 1931?

Mr. BALLANTYNE. For a great part of that time I was not actively in that bank. I was upstairs, again filling Julius' shoes.

Mr. PECORA. Filling whose shoes?

Mr. BALLANTYNE. Julius.

Mr. PECORA. Oh; our friend Julius.

Mr. BALLANTYNE. Yes; our friend Julius.

Mr. PECORA. But you did have apprehensions about the condition of the bank in 1931, even before these conditions were referred to by the national bank examiner?

Mr. BALLANTYNE. Mr. Pecora, I had apprehensions about every bank.

Mr. PECORA. No; about this particular bank, is what I am trying to find out.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Having those apprehensions, did you think it was sound for the bank in 1931 to pay dividends of over \$4,600,000, or more than 4 times the amount of dividends that it paid in 1930 and more than five times the average annual dividends it had paid for the 5-year period prior to the depression?

Mr. BALLANTYNE. Mr. Pecora, I did not know they were paying in that proportion, frankly.

Mr. PECORA. What were you doing as chairman of the board of directors and not knowing anything about the dividends they were paying in 1931? Why were you ignoring that important duty and function of a director, not to speak of the chairman of the board?

Mr. BALLANTYNE. I think I told you what I was trying to do. I was focusing entirely on the credits of that bank.

Mr. PECORA. And paying no attention to its dividend policy?

Mr. BALLANTYNE. I had not given it much thought, because there were others who were more intimately connected with that.

Mr. PECORA. Who were the others?

Mr. BALLANTYNE. Well——[referring to papers].

Senator COUZENS. Can you, Mr. Verhelle, tell us how many directors you had in 1931 in the First National Bank?

Mr. VERHELLE. During the year of 1931?

Senator COUZENS. Yes.

Mr. VERHELLE. That is the bank or the bankers company?

Senator COUZENS. No; the First National.

Mr. VERHELLE. The First National had about 35.

Senator COUZENS. They had about 35 directors?

Mr. VERHELLE. Yes, sir.

Mr. BALLANTYNE. And 21 officers.

Senator COUZENS. Thirty-five directors and twenty-one officers, and yet they required a bank examiner to come around and tell them, that whole group, the condition of the bank, if I understand the testimony.

Mr. BALLANTYNE. You are asking me if I knew it, Senator?

Senator COUZENS. Yes; I understand.

Mr. BALLANTYNE. Mr. Pecora is asking me if I knew all these facts. I answer I cannot recall knowing the facts and figures.

Senator COUZENS. But you made the general statement in answer to me if it was customary for banks, bank officials, and directors, to learn of the condition of their banks through an examination by public officials, and you said you thought that was true.

Mr. BALLANTYNE. No; not through public officials. By some source or other.

Senator COUZENS. What other source would there be other than employees of the bank?

Mr. BALLANTYNE. Well, there might be a directors' examination.

Senator COUZENS. Did the directors' examination in 1931 inform you the condition that the bank examiners pointed out?

Mr. BALLANTYNE. Informed all the directors.

Senator COUZENS. So that the directors did know in 1931 the same conditions that were pointed out then by the bank examiners?

Mr. BALLANTYNE. Yes. Oh, they knew it.

Senator COUZENS. I am glad to have that, because I had assumed by testimony given elsewhere that they did not know those conditions.

Mr. BALLANTYNE. The bank examiner invariably took the matter up with the directors.

Senator COUZENS. Yes; but you told me the directors knew all about it before the bank examiner.

Mr. BALLANTYNE. Before the——

Senator COUZENS. You what?

Mr. BALLANTYNE. I told you what?

Senator COUZENS. You told me that through the directors' examinations they knew the condition.

Mr. BALLANTYNE. Oh, I don't know. I don't know just how the examinations were conducted. I was not the executive officer of that bank at any time.

Senator COUZENS. From your experience with directors' examinations of banks of which they are directors, do they learn of the general conditions of the banks that they examine?

Mr. BALLANTYNE. They ought to.

Senator COUZENS. And I suppose we have a right to assume that's true?

Mr. BALLENTYNE. Yes.

Senator COUZENS. Then, in that event, the directors of the First National Bank must have known about this condition before the examiners came around. I think that is a correct assumption.

Mr. BALLANTYNE. I think some of them knew or appreciated it.

Mr. PECORA. Mr. Ballantyne, do you recall what dividend was declared for the first quarter of 1932 by the bank?

Mr. BALLANTYNE. By the individual banks?

Mr. PECORA. By this particular bank.

Mr. BALLANTYNE. No; I do not.

Mr. PECORA. Well, I understand from the national-bank examiner's report that it was at the rate of 16 percent per annum.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Do you know whether or not the condition of the bank justified a dividend declaration at that rate?

Mr. BALLANTYNE. I do not.

Mr. PECORA. Do you recall that it was criticized by the national-bank examiner for the first quarter of 1932?

Mr. BALLANTYNE. I do not.

Mr. PECORA. Did you ever sit in at a meeting of the board of directors or officers of the bank, either in 1931 or 1932, at which there was brought up for discussion criticisms or comments of the national-bank examiners with regard to the bank?

Mr. BALLANTYNE. I sat in one meeting where Mr. Leyburn criticized the banks. That is the meeting I spoke to you about in which it was indicated that unless there was an improvement dividends would have to stop. I thought at the time that it was a kind of a mild criticism, but that is the only one I remember sitting in with Mr. Leyburn on. Of course, in 1932 I was upstairs. I was not in the bank at all and was no longer even officially connected with it.

Mr. PECORA. You thought that the criticism of Mr. Leyburn, chief national bank examiner for that district, that you have just referred to, was a mild criticism?

Mr. BALLANTYNE. That is my—it was not mild in the sense of lack of seriousness, but it was mildly stated, I thought, at the time.

Mr. PECORA. Did you think he was conservative in his statement?

Mr. BALLANTYNE. I think he was trying to be.

Mr. PECORA. Trying to be conservative?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Then why were dividends aggregating nearly \$3,000,000 declared and paid by this bank in 1932?

Mr. BALLANTYNE. Mr. Pecora, may I ask you this: I was never an executive officer of that bank.

Mr. PECORA. Who declared the dividends, the executive officers or the board of directors?

Mr. BALLANTYNE. The board of directors.

Mr. PECORA. All right; you were a director, weren't you?

Mr. BALLANTYNE. Yes, sir; I was a director.

Mr. PECORA. You were chairman of the board of directors?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And it was the function and duty and power only of the board of directors to declare dividends?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Not of the executive officers?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Then why do you continually remind me that you were not one of the executive officers when I question you about the declaration of dividends by the board of directors of which you were the chairman?

Mr. BALLANTYNE. Well, I don't know why I remind you, except that the board of directors are a very substantial group of men here.

Mr. PECORA. And they were so substantial and they had such faith and reliance upon your judgment and experience that they made you chairman?

Mr. BALLANTYNE. Oh, I don't know that was it.

Mr. PECORA. Do you think that they made you chairman because they did not consider you were competent to be the chairman?

Mr. BALLANTYNE. I would not say that either.

Mr. PECORA. No.

Mr. BALLANTYNE. I think the reason I was chairman of the board was largely because Mr. Haass wanted me to be in there. I don't know that it was for any other reason.

Senator COUZENS. Mr. Ballantyne, you have laid great emphasis on the fact that you were dictated largely on your dividend policy by what the bank examiner, Mr. Leyburn, said. I understand he gets somewhere about 10 or 12 thousand dollars a year, and you relied largely on his judgment as to dividend policies, in spite of the fact that in 1931 you had 45 directors and in 1932 80 directors.

Mr. BALLANTYNE. Yes.

Senator COUZENS. Now, you take the judgment of Mr. Leyburn on a dividend policy in spite of the fact that you had 45 directors in 1931 and 80 directors in 1932.

Mr. BALLANTYNE. Yes.

Senator COUZENS. So you concluded that Mr. Leyburn's dividend policy was the controlling factor in spite of all those directors; is that correct?

Mr. BALLANTYNE. I don't say that that is quite correct, Senator.

Senator COUZENS. Well, I notice that Mr. Leyburn uses an alibi all the time, every time the question of dividend comes up, no matter where.

Mr. BALLANTYNE. The only thing is that I did not feel that I was solely chargeable with the dividend policy, in spite of my title, which meant very little in that bank.

Senator COUZENS. No; but Mr. Pecora has pointed out a number of times that the dividend policy is settled by the board of directors.

Mr. BALLANTYNE. Yes; of which I was one.

Mr. PECORA. And the chairman?

Mr. BALLANTYNE. Beg pardon?

Mr. PECORA. And the chairman of them?

Mr. BALLANTYNE. And the chairman; yes.

Mr. PECORA. When did you resign from the Detroit Bankers Co.?

Mr. BALLANTYNE. In May of 1932.

Mr. PECORA. Why did you resign, Mr. Ballantyne?

Mr. BALLANTYNE. Mr. Pecora, my resignation was in quite a long time before that, in the hands of one man. It was a delicate time.

It was well known to everybody, as I said yesterday, that my term was a very onerous responsibility, holding up a bank that had not fused five banks. An angel from heaven could not fuse five banks.

Senator COUZENS. Why was that?

Mr. BALLANTYNE. Would you let me continue——

Senator COUZENS. Yes; go ahead. Pardon me.

Mr. BALLANTYNE. To tell this thing, so I can tell the truth about it?

At the time of the consolidation of those banks I asked for just one thing. I thought it was indicated by Mr. Leyburn and Mr.—who is that other man?

Mr. PECORA. Hopkins.

Mr. BALLANTYNE. I said that I would like to have power, unquestioned power, not to use it as an autocrat, but in order to accomplish what I was trying to do, in order that I would not have to go through with the travail of arguing everything that had to be done. I thought they were giving that to me by organizing this governing board and through the bylaws, which I thought gave me power, until I had them examined, and I found that my power did not permit me to fire an office force. Of course, I did not want to be simply a——

Mr. PECORA. A figurehead?

Mr. BALLANTYNE. No. At the time we organized this consolidated company we also established what we called the "claims" or recovery department.

This amount of write-off, this 26 millions that you have been speaking about so often, was not all lost. There were at least 3 millions of real values back of that and a great many more claims on the border line, which I honestly believe, coupled with other write-offs that had been made, would take care of our losses for the future.

When that consolidation was made I thought I had made the best move I had ever made in my life in the banking business.

Mr. PECORA. Which consolidation are you speaking of?

Mr. BALLANTYNE. Between the Peoples Wayne and the First National. I thought it permitted me to put sound values back of the faces. I organized this claims department, got it well manned, and hoped that out of that we would be able to recover enough to make it about even. Of course, no man then could tell. I don't think anyone—an angel from heaven could not tell how long this thing was going to last.

The real-estate committee had already been organized, but without the power I could not get the fusion. Whether I could have done it with the fusion I am not prepared to say. And so I resigned. It was intended from the beginning, it was known from the beginning by everyone there, that I was only in there for a short time. I was anxious to get away, to rest. I was in there to help in a strenuous time. I did not go in there for the salary that I made. That was the least part of it, Mr. Pecora. I was in there to help. And when I found out I did not have the power to do it, I got out.

Senator COUZENS. Did you ask for power when you found out you did not have the power?

Mr. BALLANTYNE. I asked for power before that. I said I had to have it.

Senator COUZENS. And you did not get it?

Mr. BALLANTYNE. And I did not get it.

Mr. PECORA. Who withheld it from you?

Mr. BALLANTYNE. I don't know. Mr. Pecora, I am not a lawyer. You are.

Mr. PECORA. Thank you.

Mr. BALLANTYNE. And you can read the bylaws of that governing board, and you can determine for yourself what power I had.

Senator COUZENS. But from a practical standpoint, when you came to exercise the power you thought you had you found you did not have it?

Mr. BALLANTYNE. From a practical value I found it very difficult.

Senator COUZENS. Well, you said a while ago you found you did not have it at all.

Mr. BALLANTYNE. No; I did not have it at all.

Senator COUZENS. That is right. So that is the reason you resigned?

Mr. BALLANTYNE. Exactly?

Mr. PECORA. Can't you tell who prevented your acquiring or having the power that you thought the head should have in order to enable him properly to function?

Mr. BALLANTYNE. Mr. Pecora, if I could, I would gladly tell you. I will tell you straight to your face, I don't know.

Mr. PECORA. From whom did you seek the grant of the power that you realized you did not have?

Mr. BALLANTYNE. Why, I told the governing committee that I had to have the power, that I must have it.

Senator COUZENS. Who on the governing committee told you you could not have it after you told them you had to have it?

Mr. BALLANTYNE. Strange to say, nobody told me.

Senator COUZENS. How did you learn it?

Mr. BALLANTYNE. By sending the bylaws to a friendly lawyer.

Senator COUZENS. And he told you the bylaws had fooled you; that they did not give you the power you thought you had—is that right?

Mr. BALLANTYNE. That is a very true statement.

Mr. PECORA. Do you remember discussing with Mr. Leyburn, the chief national bank examiner for the district at that time, just shortly prior to your resignation the matter of your resigning?

Mr. BALLANTYNE. No; I do not. Mr. Leyburn came in to see me just about the time I was leaving, and he seemed quite perturbed that I was going out of the picture. He had indicated, Mr. Leyburn and whoever drew the report anent the consolidation, had indicated that they wanted me to have the power. At least I got that inference from them. I was not overanxious, you know, for the power. I had in the meantime invited several bankers into our meetings to meet the directors, from New York and Chicago, to see if I could not in some way get rid of this terrible load that was on my chest, and I introduced them to the directors, but I did not seem to get away with it.

Senator COUZENS. What happened to suggest to you, Mr. Ballantyne, to send these bylaws to a friendly lawyer for an interpretation as to your power?

Mr. BALLANTYNE. The fact that I found that recommendations were costing me too much effort to get through.

Senator COUZENS. In other words, the recommendations that you were making were not being accepted, is that right?

Mr. BALLANTYNE. Well, yes. I hate to make a statement like that, but it was giving me too much work and it was using up too much of my strength to get accomplished what I was trying to do.

Mr. PECORA. Mr. Ballantyne, do you recall that at the time you resigned, which was in May 1932, the national bank examiners were in the midst of an examination of the bank?

Mr. BALLANTYNE. I do.

Mr. PECORA. Do you recall Mr. Leyburn, the chief examiner, discussing with you the matter of your contemplated resignation at that time?

Mr. BALLANTYNE. The only discussion I had with Mr. Leyburn at that time—this is quite clear to me—was in my office. I think Mr. Leo Burwell was there, and Mr. Mark Wilson. I don't know who else was there, and it was announced that I had resigned. Mr. Ott was the examiner in charge then, and Mr. Ott came in to see me before he left, and I think he asked me what he should tell the governing board. I said, "Tell them the truth. Tell them the facts as you know them." He wanted to know what recommendations. I said, "Make your own recommendations. I am just stepping out of here, and I hardly with propriety am offering you suggestions."

Mr. PECORA. Now, Mr. Ballantyne, you recall that just shortly prior to your resignation in May 1932, and while the examination of the bank was going on, Mr. Leyburn sought to deter you from resigning at that particular time because he feared a misconstruction would be placed upon your resignation while in the middle of an examination of the bank?

Mr. BALLANTYNE. I think that is at the meeting I tell you about.

Mr. PECORA. Yes. And you recall that at that time you, in response to Mr. Leyburn's urgings that you do not resign, said to him in words or substance that you could not stay in the bank and keep your self-respect?

Mr. BALLANTYNE. I don't recall saying that. I recall——

Mr. PECORA (interposing). Do you recall saying anything like that?

Mr. BALLANTYNE. I speak sometimes, as you accuse me of doing, kind of hastily. As a matter of fact, I could not—there was no monetary consideration that would have put me in a job like that.

Mr. PECORA. Yes; but did you say to Mr. Leyburn in substance, if not in those exact words, that you could not stay in the bank any longer and keep your self-respect?

Mr. BALLANTYNE. I cannot recall saying those words.

Mr. PECORA. Did you say that in substance if not in those words? Did you say it to him?

Mr. BALLANTYNE. I felt it, whether I said it or not.

Senator COUZENS. That is what we are trying to get at. As long as you felt it, it did not make much difference whether you said it or not.

The committee will adjourn until 10 o'clock Tuesday morning.

(Whereupon, at 3:45 p.m., the committee adjourned until 10 a.m. on Tuesday, Jan. 30, 1934.)



STOCK EXCHANGE PRACTICES

TUESDAY, JANUARY 30, 1934

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 11:55 a.m. (at the close of an executive session on another subject), pursuant to adjournment on Friday, January 26, 1934, in room no. 301, of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Costigan, Adams, Townsend, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee.

The CHAIRMAN. The subcommittee will now come to order and we will resume our hearings in regard to the Detroit Bankers Co. You may proceed, Mr. Pecora.

Mr. PECORA. Is Mr. Verhelle here?

Mr. VERHELLE. Yes.

Mr. PECORA. Take the stand, please.

TESTIMONY OF JOSEPH F. VERHELLE, GROSSE POINTE, MICH.— Resumed

Mr. PECORA. Mr. Verhelle, referring to your so-called "private and confidential memorandum" of May 18, 1932, received in evidence as committee exhibit no. 95, on January 25 last, I note the following item therein, reading from page 26 thereof [reading]:

The files of Julius Berman indicate a note discounted of William J. Merriam, which note is dated September 17, 1931, and a letter to the effect that the records of the probate court show that William Merriam died on the 29th day of August 1931, approximately 3 weeks prior to the date of the note. There is also a letter dated May 13, 1932, from the probate court, to the effect that our claim against the estate was disallowed.

Will you tell the subcommittee of the facts and circumstances you recall with respect to that transaction.

Mr. VERHELLE. May I, please, borrow that for a second?

Mr. PECORA. Yes (handing the confidential memorandum to the witness).

Mr. VERHELLE (looking at the language quoted). I presume that the committee is familiar with the particular type of transaction that is involved in connection with the discounting of the note. The note may have been placed in the bank, either by Julius Ber-

man, or it might conceivably be possible that William J. Merriam left the signed note to be used at the maturity of the old note. It is not at all clear to me just exactly what else was developed in connection with this transaction. All the facts which were developed at the time of the writing of this report were included in the report itself. That is, everything of which I was certain beyond any doubt; and this transaction is rather hazy in my mind.

Mr. PECORA. Well, all that you reported about that particular transaction, I presume, is included in that report of yours, or that memorandum of yours.

Mr. VERHELLE. It is. There were in the files, of course, at that time these particular notes which are referred to here, so that there were, naturally, available to the officers, or to whoever received this report, for their inspection and their determination, as to precisely the whys and wherefores of this seeming irregularity.

Mr. PECORA. Well, when you came across evidence of that transaction you, apparently, were impressed above all other things with the fact that the bank appeared to have discounted a note that was dated 3 weeks subsequent to the death of the maker of the note.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Well, in view of the fact that your attention was directed to that circumstance, didn't you follow it up to find out how such a thing was rendered possible?

Mr. VERHELLE (looking further through the confidential memorandum). No; my recollection is that I did not follow that up, because the particular name itself, I mean the party who discounted the note, had been injected into other parts of this report, and that I probably felt the transactions were related in some way, or that in the development of other transactions under the same name, this particular transaction of itself would develop to those who were going to look into them.

Mr. PECORA. What circumstances developed in your general review of these transactions which informed you of the circumstances under which the bank in this instance discounted a note that was dated 3 weeks after the death of the maker of the note?

Mr. VERHELLE. Well, the records probably indicated to me that the note was made on a certain date, or some information which I do not recall right now, that—

Mr. PECORA (interposing). Well, the date of the note appears on the face of it.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And that date is about 3 weeks after the date of the death of the man whose name appears signed to the note as the maker thereof.

Mr. VERHELLE. Yes, sir; and it was that irregularity which I called attention to here, and did not go any further with that because the note had been discounted by another name which had already become involved in this particular transcript here.

Mr. PECORA. Apparently an effort was made to hold the estate of the maker of the note liable for that obligation, I mean for the obligation represented by the note.

Mr. VERHELLE. Well, I would not under the circumstances interfere with any demand to collect a note item that is on the books.

Mr. PECORA. But from the fact that you make mention in your confidential memorandum of the subsequent effort that was made by the bank to hold the estate of the alleged maker of the note to liability, you must have gone into the history of the making of that claim against that estate.

Mr. VERHELLE. Well, I undoubtedly looked up the entire file on it, because I saw a letter, according to this report, dated May 13, from the probate court——

Mr. PECORA (interposing). May 13 of what year?

Mr. VERHELLE. May 13, 1932.

Mr. PECORA. And that was how long after the discounting of the note?

Mr. VERHELLE. Approximately 8 months.

Mr. PECORA. All right. Go ahead.

Mr. VERHELLE. And this report was written, apparently, on May 18, so that the file was apparently in my hands some time between the 13th and—or the 14th, really, of May and the 18th of May.

Mr. PECORA. Did you learn for what reason the probate court disallowed the bank's claim against the estate of the alleged maker of the note?

Mr. VERHELLE. I probably did, but I do not now recall the reason for it.

Mr. PECORA. Will you let me have that confidential memorandum back again?

Mr. VERHELLE. Yes, sir (handing back the confidential memorandum).

Mr. PECORA. Now, Mr. Verhelle, you refer to this particular transaction in that portion of your confidential memorandum under the caption of "Arnott H. Moody." Why is this referred to under this caption?

Mr. VERHELLE. Because immediately following the paragraph to which you have just referred, and I have just noticed there is a paragraph containing that particular name, that in some way connects the name up with Mr. Moody.

Mr. PECORA. Do you mean that Mr. Moody you found out was in some way connected with the account that was credited with the discounting of this note?

Mr. VERHELLE. May I have that paper back again.

Mr. PECORA. Yes. Here it is [handing back the confidential memorandum].

Mr. VERHELLE. On the page directly preceding the page containing the paragraph to which you have referred, there is a record of William Berman's loans, and in that record it states the fact that the loan was granted by A. H. Moody, or that certain loans were granted by A. H. Moody.

Mr. PECORA. Did you discuss that transaction with Mr. Moody at any time?

Mr. VERHELLE. It would appear from this report that a certain phase of it was discussed by me with him, because I state in here that the explanation of Mr. Moody appears to be to the effect that—although I hardly believe I did, and I may have received that explanation from some auditor or some one else, because I do not recall discussing this at all with Mr. Moody.

Mr. PECORA. Well, what was the explanation that you obtained, regardless of the source from which you obtained it?

Mr. VERHELLE. Well, it is this explanation that is quoted here.

Mr. PECORA. Just read it.

Mr. VERHELLE. This pertains to an entirely different transaction:

On October 27, 1931, a collateral loan was granted by A. H. Moody in the amount of \$7,500, the proceeds of which are represented by the following cashier's checks—

And then there are listed four checks, one for \$3,000, another for \$3,000, and another for \$1,000, and the last one for \$500. Then it goes on to say:

The explanation of Mr. Moody appears to be to the effect that the \$7,500 loan was granted with the understanding that \$300 would be credited to the past-due loans of William Berman. The \$3,000 cashier checks were paid on October 28 and 31, 1931, but bear no indications as to who received the proceeds of the checks. The check in the sum of \$1,000 is still outstanding. The \$500 check was not applied to Berman's account, but on the same date a credit for the amount of \$500 appears in the account of A. H. Moody.

Now, this does not state that the same \$500 was credited to A. H. Moody's account:

On April 4, 1932, a check dated October 27, 1931, to the order of the discount department, for the account of William Berman, was put through the claims department. At that time information was requested of the claims department in connection with the status of the charged-off items of William Berman, and it developed that Mr. Irwin, formerly of the claims department, had had a discussion with Mr. Berman earlier that day and Mr. Berman stated that Messrs. Bodde, Moody, Sweeny, and Irwin had full information regarding his affairs and his loans, and that he did not feel it was necessary to discuss this question with anyone else.

On May 6 Mr. Moody turned over \$50 to be credited to William Berman's account and furnished a letter of explanation.

My recollection is, now, that I discussed this with someone in the recovery department, and that I obtained this information, the information which is included in here, from that particular source. I am rather definite on the point that I did not discuss any phase of it with Mr. Moody at that time.

Mr. PECORA. What was the definite relationship or connection between the discounting of a dead man's note and Mr. Moody?

Mr. VERHELLE. To show that there was a definite relationship would be completely out of order. The only implication would be that, inasmuch as these loans were being handled by Mr. Moody, that he was familiar with the particular transaction which in itself was questionable, and that he would be the individual to whom the management should look for an explanation of the transactions which you are attempting here to develop. [Witness hands the confidential memorandum back to Mr. Pecora.]

Mr. PECORA. Now, without reading in detail from your confidential memorandum, which is committee exhibit no. 95 in evidence, you refer in this memorandum to the fact that the commercial account of Mr. A. H. Moody shows numerous overdrafts. Do you recall the details thereof?

Mr. VERHELLE. No, sir. But, again, there was the ledger sheet available to those receiving the report, which would in itself indicate those overdrafts.

Mr. PECORA. Now, what position did Rupert J. Pletsch have in that bank?

Mr. VERHELLE. He was a vice president, and——

Mr. PECORA (interposing). Of the First Wayne National Bank?

Mr. VERHELLE. Yes; of the First Wayne National Bank. And he handled the public at the counter in connection with any type of transaction that might arise. He was at the same time responsible for the physical equipment and buildings, I believe, of the bank; and—well, I believe that about covers his duties.

Mr. PECORA. Now, in your confidential memorandum you say this, referring to Rupert J. Pletsch:

The personnel records indicate loans totaling \$65,026, secured by collateral valued at approximately \$12,000.

And also as follows:

We have in the claims department notes of Carl Plumhoff, who has come in to report that he does not feel morally obligated on his notes. He stated that his notes were purely an accommodation to Ramm & Co. and given because of the connection between Mr. Pletsch and the company. He brought in photostatic copies of the ledger sheets of Ramm & Co. which showed that Mr. Pletsch owned 250 shares of stock in Ramm & Co. and also he stated that Mrs. Pletsch owned stock in the Ramm Development Co. He further stated that Mr. Pletsch was very close to Mr. Ramm, spending at least 3 nights a week with him in their offices.

Now, then, there follows very numerous items of reference to certain loan transactions between Ramm & Co. and the bank. Tell us what you learned generally about those transactions.

Mr. VERHELLE. This particular individual, Mr. Plumhoff I believe it was, came to me—and I didn't know who sent him to me or how he happened to do that—but he stated substantially as I have indicated there. And my recollection is that there was a rather complete report of that in the files of the recovery department; and that I merely looked through the folder and picked out the pertinent points and stated them in that particular report. This report was rendered some time ago, and the details of these transactions are rather hazy and I hesitate to make any statement that might at all be incorrect. Then, too, in deference to some of these companies that are operating today, I would ask the committee to be as tender as possible in connection with these names.

Mr. PECORA. Well, now, you found, among other things, that a concern called Ramm & Co. had obtained the benefit of the discounting of many notes from the Peoples Wayne County Bank, didn't you?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And you found that many of those notes were said by the makers thereof to be accommodation notes.

Mr. VERHELLE. According to the statement of Mr. Plumhoff.

Mr. PECORA. Do you recall the aggregate amount of those liabilities of Ramm & Co., both direct and indirect, to the bank at the time you made this examination?

Mr. VERHELLE. I don't know. Did I state it there?

Mr. PECORA. Oh, yes; here it is. They are classified as follows:

RAMM LIABILITIES

Peoples Wayne County Bank and American State Bank as of May 2, 1932:

Notes in special loan department:

Direct-----	\$90,409.14
Indirect—Ramm Co. and affiliate-----	50,511.66
Indirect—Ramm Co.-----	3,640.00

Making a total of----- 144,560.80

Now, in reference to these obligations or liabilities, let me read to you the following from your confidential memorandum:

The possibility of collecting even 10 percent of this claim seems very remote. Of course it is not within my province to criticize the loaning policies of the bank; nevertheless, I cannot refrain from commenting upon the fact that most of these notes were accepted contrary to the old sound principle that the bank's funds should not be used for capital loans or for purely accommodation purposes.

Is it fair to infer from that comment that you made in regard to the Ramm & Co. liabilities that the most of the notes were discounted for the benefit of Ramm & Co., or that the proceeds, rather, were used for capital purposes of Ramm & Co., or were purely accommodation notes?

Mr. VERHELLE. I would say it would be fair to infer that, from that.

Mr. PECORA. Well, why did you make that comment in your report?

Mr. VERHELLE. I said I thought it would be fair to infer that.

Mr. PECORA. Oh! I thought you said it would not be fair. But you said you thought it would be fair?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. What was the status of Ramm & Co. at the time you made this confidential report?

Mr. VERHELLE. My recollection is that they were in serious difficulties, being a real-estate organization, and it was quite natural that they were having very serious troubles at that time.

Mr. PECORA. Well, in your confidential report or memorandum I find the following comment about Ramm & Co.:

Mr. Elmer B. O'Hara, receiver for Ramm & Co., was in this morning (May 5, 1932), and again expressed the opinion that the condition of the company was utterly hopeless. Together we went over the assets listed in Mr. Hoover's report and failed to find a single item of sufficient value, in Mr. O'Hara's opinion, to guarantee his administration expenses as receiver. He said that he has spent \$250 of his own money in an endeavor to obtain an audit and appraisal, but the condition of the Ramm records caused his effort to fail. He claims that a complete check-up and tracing of all the valuable assets once owned by Ramm would take months, and require an outlay of several thousand dollars, which he is not prepared to make, and the benefits, he believes, might be negligible insofar as recovery for the creditors is concerned. He says that he wants to be relieved of the receivership and is going to call a meeting of the creditors within a week or two for an expression of their opinion on his decision to wash out the whole affair as quickly as possible.

Does that refresh your recollection concerning the status of Ramm & Co.?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. To what extent?

Mr. VERHELLE. Well, to the extent that the situation appeared hopeless at that time.

Mr. PECORA. Did you discuss these Ramm & Co. loans with Mr. Pletsch?

Mr. VERHELLE. No, sir.

Mr. PECORA. Do you know whether anyone connected with the bank took them up with Mr. Pletsch?

Mr. VERHELLE. I don't know, sir.

Mr. PECORA. Now, for your information, I have received the following telegram from Dr. Davis, whose loans, or discounts, rather, are referred to in this confidential memorandum of yours, and he informs me that he has sent you a telegram reading, in part, as follows:

It would be better for you and everybody else if you can tell the whole truth about your report while you are testifying.

Now, have you received any such communication from Dr. Davis?

Mr. VERHELLE. I have not received that telegram. I suppose it is over at the hotel, and I haven't been over there this morning.

Mr. PECORA. Do you feel that you have not told the whole truth about Dr. Davis' discounts?

Mr. VERHELLE. I do not believe that I have really discussed them such as to say that Dr. Davis is a man of very high repute. I would have to refer back to the report in order to refresh my memory on the particular use of his name mentioned.

Mr. PECORA. Well, there is your confidential report [handing it back to the witness]. Now, go to it.

The CHAIRMAN. What is the date of your report?

Mr. PECORA. May 18, 1932.

Mr. VERHELLE. Yes, sir; May 18, 1932. In justice to Dr. C. Roy Davis, with whom I am not personally acquainted, but who is a man of very high standing, as I have indicated before, there are unquestionably circumstances in connection with these transactions that would exempt him from any actions that might in any way be interpreted as unethical or irregular. I do not know what those circumstances are at the present moment.

Senator COUZENS. How do you reach that conclusion, then?

Mr. VERHELLE. From the circumstances that surround his reputation and character.

Senator COUZENS. Is that the only reason?

Mr. VERHELLE. There is nothing in here that would definitely tie Dr. Davis himself into any of these transactions.

Senator COUZENS. Was he only a trustee, or was he acting for somebody else?

Mr. VERHELLE. I do not know that, sir; but apparently his affairs were being handled by Mr. Sweeny, and all matters pertaining to his transactions were referred directly to him and, quite apparently, handled by him. That is indicated by the address used in connection with the records pertaining to his transactions.

Senator COUZENS. And that fact, in itself, leads you to the conclusion that Mr. Davis is exonerated from all unethical practices; is that right?

Mr. VERHELLE. That together with his standing in the community.

Senator COUZENS. You remember that Mr. Wiggin and Mr. Mitchell had great standing in their community at one time, so I

hardly think the committee will be impressed with that particular conclusion.

Mr. VERHELLE. Except that the full circumstances pertaining to these transactions would have to be known before any condemnation could be made of the man.

Senator COUZENS. I agree with that. I am not trying to condemn Dr. Davis. I am just trying to find out by what mental process you reach that conclusion; that is all.

The CHAIRMAN. At the time of your report, as I understand it, Dr. Davis appeared as being indebted for some commercial loans and also for mortgage loans. Is that right?

Mr. VERHELLE. I did not quite hear.

The CHAIRMAN. At the time of your report Dr. Davis appeared indebted for commercial loans and mortgage loans?

Mr. VERHELLE. Yes, sir.

The CHAIRMAN. You do not know whether he has paid those or not?

Mr. VERHELLE. I do not, sir.

The CHAIRMAN. He says, at least, that he has paid all his commercial loans and also paid the mortgage, \$1,200, and got back his collateral.

Mr. VERHELLE. I do not know.

The CHAIRMAN. If that was done, that was done after your report and through the receiver, I suppose?

Mr. VERHELLE. I suppose so, sir; I do not know.

Mr. PECORA. Now, Mr. Verhelle, among the documents that you produced last week before this committee, and which included this confidential memorandum, there was a memorandum addressed by you to Mr. Wilson W. Mills, dated June 16, 1932, which has been marked for identification as exhibit no. 24 of January 25, 1934, which I now show you. Will you please look at it and tell us if you can identify it as a true and correct copy of a memorandum submitted by you on or about that date to Mr. Mills?

Mr. VERHELLE (after examining paper). Yes, sir.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Memorandum June 16, 1932, Verhelle to Mills, heretofore marked "Committee Exhibit No. 24 for identification, Jan. 25, 1924", was received in evidence, marked "Committee Exhibit No. 96, Jan. 30, 1934", and the same was subsequently read into the record by Mr. Pecora.)

Mr. VERHELLE. Mr. Pecora, could I say one thing about that confidential report before you leave it?

Mr. PECORA. Surely.

Mr. VERHELLE. I have not read that report since approximately the time I wrote it, so that I am not at all familiar with the details of those transactions. I have seen the report since, both in the hands of Mr. Gano, whose name I could not recall the other day, and your Mr. Ellis also had a copy of the report, I understand, about a month ago. The transactions are all very hazy in my mind and it is difficult for me to go into detail in connection with them.

Senator COUZENS. After the rendering of the report to Mr. Mills, did you discuss it with Mr. Mills at any time?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. How late, after the issuance of the report?

Mr. VERHELLE. I would say on May 19; sir.

Senator COUZENS. The next day?

Mr. VERHELLE. The day of that letter.

Senator COUZENS. That was the last time you discussed it with Mr. Mills?

Mr. VERHELLE. To the best of my recollection it is.

Senator COUZENS. Did Mr. Mills assure you at that time that the criticisms that you made would be remedied?

Mr. VERHELLE. Well, he told me that he would review it, look into it, and handle it.

Senator COUZENS. That is the last you heard of it?

Mr. VERHELLE. Except a reference once or twice by him, but there has been no discussion of it, I would say, since May 19.

Mr. PECORA. In the forwarding letter that accompanied this confidential memorandum to Mr. Mills, which is dated May 19, 1932, you state [reading]:

In re-reading this memorandum, I have noticed the omission of a large number of items similar to those outlined herein, some of which have been covered in memorandums and statements previously given and made to certain directors. Because of your desire to have this memorandum at once I have not had the opportunity to supply the memorandums referred to. I will obtain them for you as rapidly as possible.

Did you thereafter, Mr. Verhelle, obtain those other memorandums and forward them to Mr. Mills?

Mr. VERHELLE. No, sir; I did not. That letter was written because Mr. Mills indicated that he wanted the report to be absolutely complete beyond question, and did not want to have to go back to these transactions, or to these individuals again after this report was rendered. This report was made up, and I was in error the other day when the question of the definition of examination was brought up. This report was made up during the time that an examination of the bank was being made by the National Banking Department. It was done as rapidly as I could assemble the information, and I did not want to assume the responsibility or did not want to go on record as stating that, aside from these transactions, there was nothing else that was subject to comment. I made up no further memorandums that I can recall, due to the fact that I wanted to wait and see the method in which the report was handled, so as to have some indication of the method in which the information should be furnished.

Senator COUZENS. What other directors had you given memorandums to, referred to in your letter of transmittal?

Mr. VERHELLE. I think they are covered, sir, in the officers' minutes.

Mr. PECORA. What period of time is covered by these memorandums?

Mr. VERHELLE. I know that immediately prior to this report a memorandum was made up, which was shown to me a few days ago, or a few weeks ago, again by Mr. Gano, who was apparently checking into it, and I do not recall exactly to which officers or directors that memorandum was handed.

Mr. PECORA. Was it handed to any of the directors or officers whose acts are commented upon and criticized by you in this confidential memorandum?

Mr. VERHELLE. No, sir.

Mr. PECORA. What did you say was the date of your resignation as comptroller of the Detroit Bankers Co.?

Mr. VERHELLE. I think it was November 7.

Mr. PECORA. 1932?

Mr. VERHELLE. 1932.

Mr. PECORA. You recall that you told us that your resignation was requested by Mr. Mills, but at the time he made the request he expressed very genuine regret on his part that he had to make such a request of you?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. He indicated at that time that he was not responsible for the making of the request, did he not?

Mr. VERHELLE. I would say so; yes, sir.

Mr. PECORA. He was then the chairman of the board of the bank?

Mr. VERHELLE. I believe he was, sir.

Mr. PECORA. Did he say anything which led you to infer or to believe that the request for your resignation was a result, directly or indirectly, of your criticisms and comments in this confidential memorandum?

Mr. VERHELLE. He stated at the time that it was not.

Mr. PECORA. Did he state why the request for your resignation was made?

Mr. VERHELLE. I believe that I said something to the effect that probably this report had some connection with it, and that he, quite naturally, denied that. I think he said something to the effect that it had nothing to do with it.

Mr. PECORA. Did he tell you any reason why the request for your resignation was made?

Mr. VERHELLE. I have some recollection to the effect that it was due to the state of mind, or something else, of certain of the officers.

Mr. PECORA. Which officers?

Mr. VERHELLE. He did not say, and I did not press him on that point.

Mr. PECORA. Your own feeling was that the request for your resignation was due, in whole or in part, to the criticisms you made in this confidential memorandum?

Mr. VERHELLE. I would say in part; yes, sir.

Mr. PECORA. It appears that Mr. Ballantyne presented his resignation as president and director of the Detroit Bankers Co. at a meeting of the board of directors of that company held on May 17, 1932, effective as of May 31, 1932. The date of the presentation of his resignation precedes the date of your confidential memorandum or report to Mr. Mills by 1 day.

Mr. VERHELLE. I believe you have the wrong date, sir.

Mr. PECORA. No; I am reading the date from a photostatic copy of the minutes of the meeting of the board of directors of the Detroit Bankers Co. held on May 17, 1932, and the entry in the minutes of the meeting pertaining thereto reads completely as follows [reading]:

Resignation of John Ballantyne. The resignation of Mr. Ballantyne as president and director of the Detroit Bankers Co. was presented, read, and ordered filed. Upon motion made, seconded, and unanimously adopted, the resignation was accepted with regret, effective as of May 31, 1932.

Incidentally, let me say that at the same meeting of the board of directors the resignation of Mr. Mark A. Wilson, as vice president of the Detroit Bankers Co. was presented, and on motion unanimously accepted, effective forthwith.

At the same time, and at the same meeting, it appears from the minutes thereof that the resignation of D. Dwight Douglas, as vice president and director of the Detroit Bankers Co., was also presented and, on motion, accepted, effective forthwith.

Also, at the same meeting, the resignation of Mr. Fred J. Robinson as a director of the Detroit Bankers Co. was presented and, on motion, accepted, effective forthwith.

Senator COUZENS. Are there any other resignations?

Mr. PECORA. I think that is all at this meeting.

This confidential report, I believe you testified last week, was given also to Mr. Ballantyne, that is, a copy of it, at the same time you gave a copy of it to Mr. Mills. Do you know whether or not the resignation of Mr. Ballantyne was prompted in any way by any of the conditions disclosed by you in this confidential memorandum?

Mr. VERHELLE. I would say definitely that it was not, sir.

Mr. PECORA. Why would you say definitely it was not—that Mr. Ballantyne's resignation was not in any way influenced by this confidential memorandum of yours or by the conditions you disclosed in it? Before you answer the question, let me remind you of the testimony Mr. Ballantyne gave here last Friday afternoon, to the effect that at the time he resigned he felt that he could not stay in the bank any longer and retain his self-respect. You heard him testify to that effect, did you not?

Mr. VERHELLE. Yes, sir.

The CHAIRMAN. Do you know why he resigned? You say he did not resign on that account. Why did he resign, if you know?

Mr. VERHELLE. Well, I am sorry—Mr. Ballantyne, I thought, answered that question certainly much better than I could possibly hope to.

The CHAIRMAN. If you do not know, just say you do not know and let us go on. If you do know, state it. That is all.

Mr. VERHELLE. I do not know anything else than he stated here, sir.

The CHAIRMAN. You do not know what?

Mr. VERHELLE. I do not know of any other reasons than the reasons he has outlined here.

Mr. PECORA. Mr. Verhelle, the memorandum which you addressed to Mr. Mills on June 16, 1932, and which has been received in evidence here this morning as Committee's Exhibit No. 96, reads as follows [reading]:

It is recommended that \$600,000 be transferred from the current period profit account to the reserve for contingencies account before the next call.

Respectfully,

J. F. V., *Comptroller*.

What was the reason for that recommendation of yours?

Mr. VERHELLE. I probably felt that the reserve account should be bolstered up, and that there were undivided profits there at least to

the amount set forth in that memorandum, which should be used for that purpose. The reason for the statement "before the next call" was probably in order that this would be done so that no statement would be made public indicating—I believe that was \$600,000?

Mr. PECORA. \$600,000.

Mr. VERHELLE. Indicating \$600,000 more of undivided profits than there would be there should the reserve account be bolstered up to that extent.

Mr. PECORA. What was considered to be the desirability of bolstering up the reserve account before the issuance of the next statement in response to the comptroller's call for a report of condition?

Mr. VERHELLE. The principal reason would be so as to not reflect an erroneous impression that the bank had made a certain amount of money. I do not recall exactly the particular circumstances regarding that, that is, as to what their figures were, and what had been contributed to the reserve account up to that particular time, but I presume that the amount contributed to that account had not been sufficient, in my opinion, at that time to properly take care of the reserve account.

Mr. PECORA. Do you know whether the transfer that you recommended in this memorandum was made?

Mr. VERHELLE. I have been trying to recall it, and I do not recall, sir, whether it was or not.

Mr. PECORA. Was this recommendation part of a desire to "window dress" the condition of the bank?

Mr. VERHELLE. It was just the opposite, sir.

Mr. PECORA. So that certain conditions would be shown in the call statement?

Mr. VERHELLE. The effect of that would be the very opposite.

Mr. PECORA. Why was it desired to be done before the next call?

Mr. VERHELLE. Because at that time the statement would be published indicating undivided profits \$600,000 more than actually would be there if that transfer were made.

Mr. PECORA. Did you want to reduce the item of undivided profits by \$600,000?

Mr. VERHELLE. I doubt very much whether that would have reduced it from the previous call. I presume that the earnings during that period were probably considerably in excess of that amount, and I doubt seriously whether that would have affected the undivided profits as compared with the previous call.

Mr. PECORA. One of the other documents produced by you last week and marked for identification as "Committee's Exhibit No. 29, of January 25, 1934", consists of a copy of a memorandum addressed by you to Mr. Mills under date of May 27, 1932. I now show you that exhibit, marked for identification. Will you look at it and tell me if you recognize it to be a true and correct copy of the memorandum submitted by you to Mr. Mills on or about the date which it bears?

Mr. VERHELLE (after examining paper). Yes, sir; I do.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Memorandum May 27, 1932, Verhelle to Mills, heretofore marked "Committee's Exhibit No. 29 for Identification, January 25, 1934").

was received in evidence, marked "Committee Exhibit No. 97, January 30, 1934", and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The memorandum received in evidence as Committee's Exhibit No. 97 of this date contains, among other things, the following statement [reading]:

In line with this same subject, and while you are considering organization, I want to take the opportunity to suggest to you the substance of recommendations that have been made to the senior executive loaning officers of the bank from time to time during the past 2 years.

The best evidence to the fact that our present system is wrong lies in the terrific losses which we have incurred in the past and are still suffering from day to day.

What did you have in mind, or to what, specifically, did you refer by that language?

Mr. VERHELLE. I believe I referred to the organization of the loaning groups, together with their relationship to the credit department.

Mr. PECORA. What were the terrific losses referred to?

Mr. VERHELLE. I would say that they are the items that the examiners placed in the loss columns at the times of their examinations.

Mr. PECORA. That refers specifically to the operations or the activities of some of the senior officers. Can you designate the officers that you had in mind?

Mr. VERHELLE. Well, sir, it hardly refers to the operations of the senior executive officers. It refers to the operations of the loaning groups, and their relationship with the credit department, and the organization of the loaning groups themselves.

Mr. PECORA. Can you not designate the officers by name?

Mr. VERHELLE. There were probably thirty to fifty loaning officers in that bank, sir. This referred to the organization of them, as between themselves and the credit department.

Mr. PECORA. When you referred to the relations of these officers, what did you mean?

Mr. VERHELLE. I meant their particular physical and other inter-departmental set-ups, through which they would receive the greatest benefits from the sources at their disposal, which were used for the investigation of names and the development of credits.

Mr. PECORA. In this same memorandum you say as follows, or you make the following recommendation [reading]:

All matters pertaining directly and indirectly to one name should be handled by one officer, irrespective of the division of the alphabet in which the name may fall, and the customer's choice should determine the officer. Incidentally, the amount of paper dependent upon endorsement for its value is completely out of line with other banking institutions.

Tell us more in detail what you found to be the facts that evoked this recommendation from you.

Mr. VERHELLE. The set-up had been made requiring the customers to go to certain officers in connection with their loans. These officers depended entirely upon the first letter of the last name of the customer. My thought in the matter was that this meant that a new officer had to become thoroughly acquainted again with the financial condition of the borrower, and that the arrangements that had been negotiated as between borrower and the bank would again have to be

reinstated, and for a multitude of other minor reasons. My thought was that it was a better plan to have the customer go to the particular officer who was familiar with his financial situation; and, furthermore, that all of his transactions—that is, all of his loans—should be handled through that one officer or loaning group, so that that loaning group would be familiar with all the transactions involving that particular customer.

Mr. PECORA. What were the facts you found which called forth particularly the comment [reading]:

Incidentally, the amount of paper depending upon endorsement for its value is completely out of line with other banking institutions?

Mr. VERHELLE. I do not recall what the percentages were, but I do know that at time the amount of such paper considerably exceeded the normal amount of that type of paper carried by a bank.

Mr. PECORA. Do you recall whose endorsements were in question?

Mr. VERHELLE. No; that is just a particular type of paper, sir. That is paper depending upon the endorsements of others than the maker.

Mr. PECORA. Did any of those notes include those endorsed by officers of the bank?

Mr. VERHELLE. Such as there were, I believe I outlined, or they were outlined in various reports submitted, I am sure, by the personnel department, and so forth; but that would be an infinitesimal amount, and had nothing to do with that particular comment.

Mr. PECORA. You found, in making the examinations which were covered in your confidential memorandum to Mr. Mills, which is in evidence, that there were officers of the bank who apparently had received the benefit of discounts of paper signed by persons other than themselves, did you not?

Mr. VERHELLE. To the extent that it was indicated in that confidential report at that time.

Mr. PECORA. Did you make mention of those instances, and of all those instances, in the confidential report to Mr. Mills?

Mr. VERHELLE. All those that I had verified and knew to be a fact, I stated in there. That is, I went absolutely according to the records of the bank, and outlined all the transactions which might be subject to criticism.

Mr. PECORA. Among those transactions which you so characterized and called attention to in your confidential memorandum were transactions in which officers who received the benefits of those discounts, did not have their names appear whatsoever on the discounted paper. Do you recall such instances?

Mr. VERHELLE. I wonder if I may have that question once again? (The reporter read the pending question.)

Mr. VERHELLE. I do not right now, sir.

Mr. PECORA. Now, I show you another one of the documents produced by you last week, which was marked "Committee's Exhibit No. 61", for identification on January 25 last. Will you look at it and tell me if you recognize it to be a true and correct copy of a memorandum submitted by you to the operating committee on June 1, 1932?

Mr. VERHELLE (after examining paper). I do, sir.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Memorandum June 1, 1932, Verhelle to operating committee, heretofore marked for identification "Committee's Exhibit 61", Jan. 25, 1934, was received in evidence, marked "Committee's Exhibit No. 98", Jan. 30, 1934, and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The memorandum has been marked in evidence as "Committee's Exhibit No. 98" of this date, and contains the following statement, Mr. Verhelle [reading]:

Due to the dangers originating with our employees' loans, it is recommended that we determine the total liability of all officers and employees and that no officer or employee of any of the units, whose total unsecured liabilities exceed three times his or her annual salary, be permitted to handle cash or securities. If the officer or employee is past 55 years of age this limit should be placed at unsecured liabilities of twice the annual salary.

What were the circumstances that called forth this recommendation?

Mr. VERHELLE. I do not specifically recall, sir. I think the circumstances are possibly outlined in the operating committee minutes of that particular day.

Mr. PECORA. What were the dangers to which you referred in this memorandum?

Mr. VERHELLE. Predicated on the same theory as the present rules and regulations recently covered by the Banking Act of 1933 are predicated upon.

The CHAIRMAN. Had many loans been made to employees?

Mr. VERHELLE. No new loans were made to employees at that time, sir.

The CHAIRMAN. I did not get you.

Mr. VERHELLE. No new loans were made to employees at that time, sir.

Mr. PECORA. No new loans?

Mr. VERHELLE. Not to my knowledge.

Mr. PECORA. The chairman did not ask you that.

Mr. VERHELLE. I beg your pardon.

The CHAIRMAN. I asked you if loans had been made to employees?

Mr. VERHELLE. Yes, sir.

The CHAIRMAN. We will take a recess now until 2 o'clock.

(Whereupon, at 1 p.m., Tuesday, Jan. 30, 1934, a recess was taken until 2 p.m. of the same day.)

AFTERNOON SESSION

Upon the expiration of the noon recess the committee reconvened at 2 o'clock p.m.

The CHAIRMAN. The committee will come to order, please.

Mr. PECORA. Mr. Chairman, may I state for the purpose of the record that communication has been received from Dr. C. R. Davis, of Detroit, Mich., in which in substance he states that, owing to the physical condition of Mr. Donald N. Sweeny, the attendance of Mr. Sweeny before this committee in response to a subpoena which has been served upon him would subject Mr. Sweeny to possible serious consequences to his health. He indicates further that Mr. Sweeny is willing to give such testimony as may be desired of him at his bedside in his home.

TESTIMONY OF JOSEPH F. VERHELLE—Resumed

Mr. PECORA. Mr. Verhelle, among the other memoranda which you produced last week is this one marked "Committee's Exhibit No. 17 for identification as of January 25, 1934", which purports to be a copy of a memorandum submitted by you to Mr. Wilson W. Mills, chairman of the board, First Wayne National Bank, dated May 5, 1932. Will you look at the document in question and tell me if it is a true and correct copy of the memorandum submitted by you to Mr. Mills on or about that date?

Mr. VERHELLE. It is.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Memorandum from Joseph F. Verhelle to Wilson W. Mills, dated May 5, 1932, previously marked for identification, upon being admitted in evidence, was designated "Committee Exhibit No. 99, Jan. 30, 1934", and appears in full at the end of today's record.)

Mr. PECORA. Among the rules that you recommended in this memorandum be adopted by the bank is the following, designated as "Item No. 12":

That a report be submitted to the loan groups by the operating end of the loan department—that is, the discount cage—which report will go to all of the loaning officers and which will cover all loans. The loaning officers should not have access to the liability ledgers nor to the notes, and all loans should be reviewed by the entire group. This procedure involves considerable explanation, all of which has been covered in memorandums previously submitted and which we will be glad to review with you at your pleasure.

What reason did you have, or what reasons did you have, for advancing this particular recommendation?

Mr. VERHELLE. A note to a bank is about as important to it as its cash. The liability record itself retains practically the same position. It was always very difficult to keep the liability records in balance and to keep the notes properly balanced up. It was with that in mind, together with the fact that it was better practice to definitely place the responsibility for the notes in the hands of some specific individual or limited number of individuals, that that recommendation was made.

Mr. PECORA. Why did you consider it undesirable that the loaning officers should not have access to the liability ledgers?

Mr. VERHELLE. There are quite a number of reasons for that, and it is general practice to keep the liability ledgers and the notes directly under the control of others than those handling the notes. It serves many purposes, the principal and outstanding one being that the discount teller will normally see to it that the new note taken either as a renewal or a part renewal will have and contain all of the endorsements that the original note contained; that the same individuals will definitely be liable therefor on the renewed note as they were on the old note. I think that is about the total.

Mr. PECORA. Now, Mr. Verhelle, why did you recommend in this memorandum that the loaning officers should not have access to the notes?

Mr. VERHELLE. My explanation on the endorsements pertained to the notes. The liability ledger is merely a ledger sheet containing the debits and credits, the amount, that is, the payments and the

amounts loaned out in connection with that account, and acts more or less as a control on the notes themselves, so that you require two records in order to determine your loaning position. One is your liability record, which determines for you the amount of money you have loaned out and outstanding, and through those records you can determine the direct borrower normally, and the note itself indicates, generally speaking, two other facts not covered by the liability record, one of which is the collateral securing the note and/or the other is the record of the endorers of the note.

Mr. PECORA. Well, now, Mr. Verhelle, hadn't you found something in your confidential investigation of the bank which prompted you to make the specific recommendation that loaning officers should not be permitted access either to the liability ledgers or to the notes themselves?

Mr. VERHELLE. I think that that entire memorandum is rendered practically simultaneously with or just prior to the rendering of this other report and that the two of them are definitely connected.

Mr. PECORA. This memorandum is dated May 5, 1932. Your confidential report to Mr. Mills is dated May 18, 1932, or just about 2 weeks after this memorandum. What had you found in your investigation of this bank that prompted you specifically to recommend the adoption of a rule which would prohibit the loaning officers of the bank from having access either to the notes or to the liability ledgers?

Mr. VERHELLE. I would say that the first and outstanding point was the difficulty of balancing the notes and the liability ledgers themselves.

Mr. PECORA. How was that difficulty enhanced or created by the loaning officers having access to the records and papers of the bank?

Mr. VERHELLE. Because quite frequently they would call for a record and fail to return it, and the result would be that it would be necessary to check out the term in which liability card is missing, and it is very definitely proper practice and common in the majority of institutions to restrict the use of the liability ledgers and the use of the notes to one or very few specific individuals. It must be borne in mind that there were a very large number of loaning officers here, and it might sometimes be difficult to determine just who had it, because one man might pass it on to another, and so forth.

Mr. PECORA. Is that the primary and principal reason why you recommended this rule?

Mr. VERHELLE. I would say that that was probably the outstanding consideration in the recommendation of that rule.

Mr. PECORA. Now you said that this memorandum of May 5, 1932, that contains this recommendation is to be read in connection with your confidential memorandum of May 18, 1932.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. I find in your confidential memorandum of May 18, 1932, which is Exhibit No. 95 in evidence, the following statement that you incorporated in it:

Before entering into a discussion on the types of transactions involving the officers of the bank, it should be stated that under the systems in use it was entirely possible for a loaning officer to borrow or loan to himself or anyone else and discharge his liability without the matter coming to the attention of those concerned.

Does that item embodied in your confidential memorandum suggest to you the reason why you recommended this rule?

Mr. VERHELLE. The carrying out of that particular rule would not have eliminated that possibility.

Mr. PECORA. It would have reduced it to a minimum perhaps?

Mr. VERHELLE. It would have reduced it some, possibly, but it would not have eliminated it definitely.

Mr. PECORA. I do not know why you called attention in your confidential memorandum to the possibility under the existing system in the bank for loaning officers to make loans to themselves and discharge the obligation without anyone else learning of the transaction.

Mr. VERHELLE. Well, there is no reason why that particular rule that you have quoted there should of necessity stop that possibility.

Mr. PECORA. Except that if your rule, the rule you recommend were adopted, such a loaning officer could not go to the bank's records and take out his note—isn't that so?

Mr. VERHELLE. No, sir; it is not.

Mr. PECORA. Why not?

Mr. VERHELLE. Well, just a simple removal of that note from that file would still have left a record behind it that would have indicated who was owing and how much. That is, there still would have been the liability card and there still would have been the journals of the department, through which it could be checked, and certainly the removal of the note would have left the department out of balance that night so that it would be necessary for the clerks to check out their work and determine just what note was missing. That rule would not have eliminated that possibility to which you refer.

Mr. PECORA. In your memorandum of May 18, 1932, immediately following the item that I have just read to you therefrom appears this: "It is understood that definite steps have been taken to place the liability ledgers under control and remove the original notes from the control of the loaning officers." I infer from that that the rule which you recommended in your report or memorandum of May 5, 1932 had been adopted?

Mr. VERHELLE. I have a notion that it was, sir.

Mr. PECORA. And the fact that you refer to the change in the system whereby liability ledgers were placed under control and the original notes removed from the control of the loaning officers, right after you call attention to the weakness of the system which made it possible for a loaning officer of the bank to borrow from the bank and discharge his liability without its coming to the knowledge of anybody else, suggests to me that you had found that that practice had been followed by loaning officers of the bank.

Mr. VERHELLE. Well, my recommendations were not necessarily based on things that had gone before but on the possibilities of the things that could be done as well, and therefore to check the system to determine the possibilities that lay in that system in order to tie up all of the methods and means whereby any practices that were not proper could be eliminated.

Mr. PECORA. Well, now, tell us frankly if you had found those practices to have been followed on the part of the loaning officers of the bank.

Mr. VERHELLE. If I did, it would be mentioned in that report, sir.

Mr. PECORA. It is mentioned in the report; that is, the system under which it was possible to do it is mentioned.

Mr. VERHELLE. The specific transaction would have been mentioned in that report.

Senator COUZENS. Well, Mr. Verhelle, I may be dumb, but I haven't got the system yet in my mind under which this could have been operated. I wish you would explain it. You say, "It should be stated that under the systems in use it was entirely possible for a loaning officer to borrow or loan to himself or anyone else and discharge his liability without the matter coming to the attention of those concerned." How would that system have been operated? You said it was a possibility, but you did not say how it could be worked.

Mr. VERHELLE. I did not want to make a record of the 246 ways in which to defraud a bank.

Senator COUZENS. Isn't this one specific way that a bank could be defrauded?

Mr. VERHELLE. I do not believe that I had that particular way in mind at that time, because the one big question for consideration was the recovery department, which in itself would have eliminated in itself, without any further check, all possibility of such an item as we are discussing here now.

Senator COUZENS. I am still undetermined how a system like that could be worked, and I think it is of importance to this committee to know how a system could be worked.

Mr. VERHELLE. Well, I will explain one way in which this thing could be worked and which was definitely under consideration and which was being worked upon with a view to holding it in tow.

One is, assuming that a note was in the bank, and assume further that the examiners came in and reviewed the notes with the officer who is handling them. If that officer were to indicate to the examiner that the note is worthless and the examiner therefore set it up in his loss column, it was quite possible to have that note charged off due to the fact that it was a loss item, and unless it were followed up there would be no way of determining as to the type of loan it was.

Senator COUZENS. Well, assuming that the examiner had set the note up as a loss, could it have been charged off without action of the board of directors?

Mr. VERHELLE. Yes; but the basis upon which the examiner charged it off would be recognized.

Senator COUZENS. What examiner are you talking about now?

Mr. VERHELLE. By the national banking department, for instance.

Senator COUZENS. Yes; but he does not charge off any losses?

Mr. VERHELLE. No, sir; but he sets them up in the loss column.

Senator COUZENS. Not on your books; only in his report?

Mr. VERHELLE. In his report; yes, sir.

Senator COUZENS. But I am trying to find out how this loan could be set up on the books of the bank without the action of the board.

Mr. VERHELLE. It could not, without the action of the board.

Mr. PECORA. And so, as a matter of fact, then, an officer could not borrow or loan to himself or anyone else and discharge his liability

without the matter coming to the attention of those concerned, could he?

Mr. VERHELLE. The number of notes that are charged off is so large that no board of directors could possibly expect to review each item and know definitely the particular financial position of the individual. He might have completely disappeared.

Senator COUZENS. Who might have disappeared?

Mr. VERHELLE. The borrower. There would be nothing further they could do about it. There would be no way by which they could check up to determine whether or not this individual can be located or can be reached.

Senator COUZENS. You mean the officer might have entirely disappeared?

Mr. VERHELLE. No; I mean the man on the note.

Senator COUZENS. Well, you said the officer could borrow or loan to himself. So that you must mean that the officer could have entirely disappeared, if it happened to have been an officer's note. Couldn't that have happened, according to your statement?

Mr. VERHELLE. Well, hardly. That is a peculiar construction to place on it.

Senator COUZENS. That is not my construction. I am using your English, if I understand it correctly. I assume that when the board of directors vote to charge off these loans or loss items they would have them submitted to them for that action, would they not?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. Would that be one of the officers who would be concerned, as referred to in your memorandum here?

Mr. VERHELLE. Well, that would be upon the recommendation of a group of officers.

Senator COUZENS. That the loan be charged off?

Mr. VERHELLE. Those officers who review the report to the examiners, for instance, would generally be the ones to make the recommendation.

Senator COUZENS. The officers in making the recommendation to the board of directors to charge off an officer's loan might do that without anyone knowing about it except the board of directors, whom you say were unable to pass upon all these numerous items?

Mr. VERHELLE. I think that—I would like to read that paragraph there, because I cannot quite follow your interpretation.

Senator COUZENS. It is peculiarly phrased to me, and I do not understand it. I have been in a bank a long time, and I do not understand how that could be worked.

Mr. VERHELLE. This would be by means of an accommodation loan.

Senator COUZENS. To whom? To anyone, to an officer, or what?

Mr. VERHELLE. To anyone. That officer's name certainly would not appear on the note, because, quite naturally, the name would be recognized.

Senator COUZENS. So that would be a case of someone else other than an officer, but you also include an officer's loan in that memorandum.

Mr. VERHELLE. Well, presume that Jones——

Senator COUZENS (interposing). Who is Jones now? Is he an officer, for example?

Mr. VERHELLE. We will say that he is.

Senator COUZENS. All right; go ahead.

Mr. VERHELLE. Who has the right to make loans, who has the authority to make loans.

Senator COUZENS. Yes.

Mr. VERHELLE. Makes out the note, signs it with the name of Smith.

Senator COUZENS. Oh, then he forges it in the first instance then, because he does not sign his own name; is that true?

Mr. VERHELLE. I don't know whether that would be forgery or not.

Senator COUZENS. Well, it would be obtaining money under false pretenses, would it not?

Mr. VERHELLE. Oh, yes; it would be the wrong thing, beyond a doubt.

Senator COUZENS. All right. Follow on after Jones got the money by signing someone else's name to the note. Follow that through and see how it works.

Mr. VERHELLE. Well, Smith has disappeared by the time this note falls due. The examiner comes in and determines that due to the bank's inability to locate Smith, therefore this note is a loss.

Senator COUZENS. In spite of the fact that Jones got the money?

Mr. VERHELLE. Yes.

Senator COUZENS. I think I understand it now.

Mr. VERHELLE. There are a number of ways and methods.

Senator COUZENS. That is one way that occurs to you, is it?

Mr. VERHELLE. That is one way that occurs to me, yes. And numerous other ways; and certain recommendations were made whereby practically every conceivable method that could be used would be definitely eliminated.

Mr. PECORA. Now, Mr. Verhelle, how could the hypothetical case that you have just discussed with Senator Couzens be precluded by the adoption of a rule which prohibited access to loaning officers to the notes and liability ledgers in the bank?

Mr. VERHELLE. That is exactly what I suggested, Mr. Pecora, that that rule does not preclude the possibility of that particular act.

Mr. PECORA. Then there must have been something else that you learned in connection with the loaning activities of the loaning officers of the bank that prompted you to make this recommendation.

Mr. VERHELLE. Well, it is of vital importance to keep the records in balance and to facilitate the balancing of the records, and my recollection is that that was by far the principal reason for that particular recommendation right there.

Mr. PECORA. What were the other things that it was possible in our opinion, under the system that you found to exist in the bank at the time you made the examination, that led to this confidential memorandum, which you say made it "entirely possible for a loaning officer to borrow or loan himself or anyone else and discharge his liability without the matter coming to the attention of those concerned", others in the bank?

Mr. VERHELLE. I did not quite get the first part of that.

Mr. PECORA. What were the other things that you found were possible to do whereby a loaning officer could borrow or loan money to himself or to anyone else and discharge the liability without the matter coming to the attention of other officers?

Mr. VERHELLE. Well, at one stage of the game in any transaction, in order to discharge the loan without paying it, the loan must be charged off. That is one definite channel through which it must pass.

Mr. PECORA. But the charge-off, you say, cannot be made without the authorization of the board?

Mr. VERHELLE. No; but the board would have no way of determining—no board would in any good-sized bank have any method whereby they could independently or individually determine—the actual financial condition of all of the large number of charge-offs that take place. They would have to rely upon the officers themselves. A method was provided somewhere whereby all of the charged-off items would pass into an entirely new group of people who had not anything to do with the making of the loans, so as to prevent the possibility of such a thing happening.

Mr. PECORA. You were not making recommendations for the adoption of rules upon idle grounds, were you?

Mr. VERHELLE. No, sir.

Mr. PECORA. They were based upon what you had learned were practices?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And these rules were designed by you to prohibit or preclude those practices?

Mr. VERHELLE. Well, not only that, but also to facilitate the work as well.

Mr. PECORA. In your memorandum of May 18, 1932, you took occasion to refer to existing systems in use in the bank under which it was possible for a loaning officer to borrow or loan to himself or to anyone else and to discharge his liability without the matter coming to the attention of those concerned. And you also say in this memorandum:

It is understood that definite steps have been taken to place the liability ledgers under control and remove the original notes from the control of the loaning officers.

Those steps apparently consisted of the adoption of a rule that you recommended in your memorandum of May 5, 1932?

Mr. VERHELLE. Well, it would seem to me that the opening statement there saying that it is possible, and then following it up with the statement that steps have already been taken to accomplish this other, that I very definitely felt that this other—in fact, I know that I did—felt that this other rule was not going to obviate the possibility, not going to eliminate the possibility, covered by the first section of that paragraph.

Mr. PECORA. Well now, the possibilities enumerated or referred to by you in the memorandum of May 18 would not have been possibilities unless the loaning officer, through his access to the liability ledgers as well as to the notes, could have removed the notes and the liability ledgers or the entries thereon relating to any such loan?

Mr. VERHELLE. It still would have been possible to do that very thing which I outlined in the beginning in the first section that you have read, even though the liability ledgers and the notes were under the control.

Mr. PECORA. If the liability ledgers and the notes were under the control of persons other than the loaning officers, would it still have been possible for the loaning officers under any of the systems you found in use in the bank to make loans to themselves or to their own nominees or designees and discharge the liability without others in the bank learning of the transaction?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. What were those systems that permitted that?

Mr. VERHELLE. That theoretical transaction that we have just outlined is not in any way eliminated by the control of the note or the liability ledger.

Mr. PECORA. What other systems were there in vogue that enabled loaning officers to do those things?

Mr. VERHELLE. Of course, the control of the note did prevent one phase or one method.

Senator COUZENS. Yes; we understand that, but Mr. Pecora is asking some other method now.

Mr. PECORA. The reason I ask is because in your confidential memorandum you refer to "systems in use", not "a system"; but you mention the plural. So there must have been more than one system. You described one. What were the other systems?

Mr. VERHELLE. Well, there is a system in use in the discount department, a system in use in the special loan department or recovery department, as we have termed it here, and it is a combination of the two which I definitely felt if it were correct would permanently and very definitely eliminate the possibility of that type of transaction.

Mr. PECORA. Among the other documents that you produced last week and which were marked for identification is this one marked "Committee's Exhibit No. 42 for Identification" on January 25 last, which consists of what purports to be a copy of a memorandum or letter addressed by you to Mr. John Ballantyne under date of March 28, 1932. Will you please look at it and tell me if you recognize it to be a true and correct copy of such a letter or memorandum that you addressed to Mr. Ballantyne at that time?

Mr. VERHELLE. I would say that this copy was corrected, sir, before it was sent out.

Mr. PECORA. Was what?

Mr. VERHELLE. Was corrected before it was sent out.

Mr. PECORA. In what respects?

Mr. VERHELLE. I notice pencil notations on here.

Mr. PECORA. Do the pencil notations indicate the corrections that were made in a final draft?

Mr. VERHELLE. Not necessarily all of them. They would definitely indicate to me that I corrected this, because I would not have sent the memorandum with the pencil notations on it.

Mr. PECORA. Would that copy with the lead-pencil corrections that appear upon the face thereof indicate the final form, giving effect

to the lead-pencil notations, of the memorandum when submitted to Mr. Ballantyne?

Mr. VERHELLE. Not necessarily, sir. It all depends upon whether I redictated this or whether I just returned it with the idea of making these particular changes. I am trying to recall that right now.

Mr. PECORA. The fact is that, among the papers you produced last week, that is the only draft of such a memorandum that was contained therein.

Mr. VERHELLE. Under the terms of the subpoena I produced everything that I had along this line.

Mr. PECORA. I don't get you, Mr. Verhelle.

Mr. VERHELLE. I say under the terms specified in the subpoena I produced this, and it would seem to me that I probably—in fact, I am almost certain that this was rewritten, and I don't know whether or not other changes were made and the pencil notations contained herein.

Mr. PECORA. How do you account for the fact that you have a copy of a tentative draft among your possessions and not a copy of the memorandum in its final form?

Mr. VERHELLE. Because I probably took this home to work on it, as I did with a lot of things.

Mr. PECORA. I observe that you gave generally similar testimony last week, when I asked you to identify what purported to be a copy of another memorandum addressed by you to Mr. Ballantyne. In referring to that memorandum last week you also said you were not sure whether or not that actual memorandum or any copy thereof had been delivered to Mr. Ballantyne. But I have observed here today that you have no hesitancy in identifying copies of memoranda that I have shown you addressed to Mr. Mills. I am wondering, Mr. Verhelle, if your memory is hazy about memorandums addressed to Mr. Ballantyne and clear about those addressed to Mr. Mills.

Mr. VERHELLE. No, sir; there would be nothing—

Mr. PECORA. How is that?

Mr. VERHELLE. No, sir; I don't believe that that has—

Mr. PECORA. Well, you recall dictating that memorandum, a copy of which I have just shown you?

Mr. VERHELLE. I think I do.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Memorandum dated May 28, 1932, from Joseph F. Verhelle to John Ballantyne, previously marked "Committee Exhibit No. 42 for Identification" on January 25, 1934, was thereupon, upon being received in evidence, designated "Committee Exhibit No. 100, January 30, 1934", and appears in full at the end of today's record.)

Mr. VERHELLE. This particular one happens to be marked up.

Senator COUZENS. Of course, you could have marked that up most any time.

Mr. VERHELLE. But I did not.

Mr. PECORA. This memorandum or copy thereof has been received in evidence as Committee's Exhibit No. 100 of this date. Let me ask you if the lead-pencil notations or corrections that appear on the face thereof are in your handwriting?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. I notice in this memorandum you say, among other things, as follows—first let me state that it is dated March 28, 1932, and is addressed specifically as follows:

Mr. John Ballantyne, president Detroit Bankers Co.—

And then it says:

The following is an unusually frank discussion of our organization. Please do not consider me presumptuous.

Later on you state as follows in this memorandum:

The purpose of this memorandum, however, is to find a means whereby the officers may be informed of their responsibilities, this being considered necessary for the following reasons:

A considerable group of senior officers who handled a large variety of functions in their old institutions do not appear to have any specific duties or responsibilities. These men are of such senior rank from the standpoint of their titles that their activities either require almost constant meetings or else almost invariably result in embarrassment to the official staff as well as themselves.

What did you mean by that, Mr. Verhelle?

Mr. VERHELLE. Well, I would say that they either had to meet continuously to discuss things or else one would do something and another would not know about it and the result would be an embarrassing situation.

Mr. PECORA. Did you also mean to call attention to the fact that a large number of senior officers had no specific duties or responsibilities assigned to them and hence were in one another's way?

Mr. VERHELLE. Not necessarily, sir.

Mr. PECORA. Well, does it mean that?

Mr. VERHELLE. I would say, "No."

Mr. PECORA. What did you mean then when you say that—

A considerable group of senior officers who handled a large variety of functions in their old institutions do not appear to have any specific duties or responsibilities.

Mr. VERHELLE. Well, that they continued to handle the variety of subjects which they had handled prior to the consolidation.

Mr. PECORA. Oh, don't you say just the opposite to that? Don't you say that they handled—you say—

A considerable group of senior officers who handled—

Speaking of the past—

a large variety of functions in their old institutions do not appear—

Speaking of the present—

to have any specific duties or responsibilities.

Mr. VERHELLE. No; I would have to read that memorandum a little more closely.

Mr. PECORA. Well, read that paragraph [handing document to Mr. Verhelle]. I attach certain meaning and intendment to your language there, but if you understand anything other than what seems to me to be the plain meaning of the words you use I would like to know what else you understand.

Mr. VERHELLE. In order to explain this you have to have just a little bit of background in connection with this particular situation

at that particular time. This was after the consolidation of two institutions with their physical quarters continued in their old locations, and directly thereafter during the next few months steps were taken to consolidate the functions so that one function would be assigned to one certain officer and another function to another officer. As these became assigned in certain instances, quite naturally the duties were different from the others, and there was a switching of duties of these officers.

The result was that—and then I quote here:

A considerable group of senior officers handled large——

Mr. PECORA (interposing). "Who handled"—"in their respective institutions" you say. And that means you were referring to their activities prior to the consolidation, which is prior to December 31, 1931?

Mr. VERHELLE. No; not necessarily, because the duties were not immediately changed due to the fact that a group of figures were thrown together. The functions remained as they had been, but were being shifted as slowly as possible, with the result that we got here to the point of where, through this switching of functions and the centralization of certain specific functions into certain officers and the switching of officers themselves, for that matter, from one physical building to another, it resulted in a group of men having nothing but more or less general activities; that is, waiting on the public and handling whatever happened to come up, without any specific duty being assigned.

Mr. PECORA. You don't say that in that language, do you Mr. Verhelle?

Mr. VERHELLE. I don't say it in that language, but——

Mr. PECORA. The language you use indicates, does it not, that at the time you wrote that memorandum in March 1932 those senior officers had no specific duties or responsibilities assigned to them? Isn't that what you would gather from it?

Mr. VERHELLE. Well, I would say so; yes.

The CHAIRMAN. Were they all drawing salaries?

Mr. VERHELLE. Well, that does not mean that they were not all working.

Mr. PECORA. That is not the question. Were they all drawing salaries?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, Mr. Verhelle, in this memorandum of March 28, 1932, marked Committee Exhibit No. 100 in evidence, you also say this, referring to an investment committee which was headed by Mr. Mark A. Wilson as chairman:

To extend their activities to all assets, the value of which is predicated on securities other than real estate, will involve the appointment of a subcommittee. This is highly desirable for the following reasons:

1. There are numerous corporations whose stock is used as collateral, and so forth, in the various units, and to such an extent that if difficulties arose in connection with the company, the losses will be passed to us.

2. Numerous unlisted securities are used as collateral to loans, and no facilities are provided the loan officers from which they can determine the actual value of the securities in them unless those involve real estate.

3. There are a few very heavy concentrations of collateral that should be under constant surveillance by the investment committee, and upon which arbitrary values should be set.

Now, what were the facts and circumstances that you had ascertained the existence of which prompted you to make that recommendation in this memorandum?

Mr. VERHELLE. I would say, principally, the amount of unlisted collateral securing loans.

Mr. PECORA. You found that kind of collateral in considerable volume in the various unit banks of the Detroit Bankers Co., did you?

Mr. VERHELLE. I would say so.

Mr. PECORA. And what were the few very heavy concentrations of collateral that you referred to in this paragraph of your memorandum, and as to which you recommended they should be under constant surveillance by the investment committee, and upon which arbitrary values should be set?

Mr. VERHELLE. Well, I would consider large concentration, any stock of which a large portion of that outstanding is held as collateral for a loan. Irrespective of the actual amount involved in dollars, any one of those would be a large concentration.

Mr. PECORA. You say there were a few very heavy concentrations of such collateral. What were those classes of collateral? Or, rather, what kind of stock or security made up those few very heavy concentrations?

Mr. VERHELLE (after a pause as if in deep thought). I do not know that I could answer that question.

Mr. PECORA. Well, did you find, for instance, heavy concentrations of collateral consisting of capital stock of the Detroit Bankers Co. in the various unit banks of the company?

Mr. VERHELLE. Of course, that would not be involved in that recommendation.

Mr. PECORA. Well, I am asking if you found such heavy concentrations, I mean of that kind of stock.

Mr. VERHELLE. Well, there was a large amount of stock of the Detroit Bankers Co.

Mr. PECORA. About how much was the volume of that stock held as collateral against loans in the various unit banks?

Mr. VERHELLE. I have been trying to recall that figure, but I just can't answer you.

Mr. PECORA. Just make a little effort to give us even an approximation of it, will you?

Mr. VERHELLE (again lapsing into deep thought).

Mr. PECORA. Possibly in order to help you along I will say, my recollection of the evidence here is that there was something like one-million-seven-hundred-thousand-odd shares of that stock outstanding. Is that right?

Mr. VERHELLE. Yes, sir; that is correct.

Mr. PECORA. Now, how many hundreds of thousands of those shares did you find were pledged as collateral to secure loans in the various unit banks?

Mr. VERHELLE. I just could not give you an approximate idea of that. The figures are hazy in my mind, and I could not approximate it.

Mr. PECORA. You could not even approximate it?

Mr. VERHELLE. It is covered in the reports, I think.

Mr. PECORA. In whose reports?

Mr. VERHELLE. I think in the bank examiner's reports.

Mr. PECORA. Of course it is, but I just want to see how much of it you can tell this committee about in that respect.

Mr. VERHELLE (as if lapsing into deep thought again).

Mr. PECORA. Let me ask you specifically: Do you know of any other collateral that was held as security for loans in any larger amounts than in the case of the stock of the Detroit Bankers Co.?

Mr. VERHELLE (again lapsing into deep thought).

Senator COUZENS. He seems to want to think it over a good deal.

Mr. PECORA. Can't you tell us?

Mr. VERHELLE. I cannot say; but that answer would not mean that there was not.

Mr. PECORA. That there was not what?

Mr. VERHELLE. Any other stock that was carried in larger amounts.

Mr. PECORA. You cannot think of any other stock that was more heavily concentrated as collateral for loans than that of the Detroit Bankers Co., can you?

Mr. VERHELLE. I cannot think of any. There might be some, but I just can't think of any.

Mr. PECORA. Now, Mr. Verhelle, in this memorandum marked "Committee Exhibit No. 100" in evidence you say as follows, under the caption of "Detroit Company":

This company acts as nominee for any of the units. It will take a considerable length of time to place stock in the names of others, under control. Stock has been transferred in the names of employees and their families in a most negligent manner. In certain cases bank stocks or stocks that have been charged off, have been carried in this manner, and it will take a considerable length of time before we can know that we are receiving all the income to which we are entitled, and that we are not subject to the liability that normally accompanies the holding of bank stock. The use of this company as a nominee has resulted in the stoppage of a very substantial leak.

Now, Mr. Verhelle, do you recall the circumstances and facts that prompted you to call Mr. Ballantyne's attention to that particular matter?

Mr. VERHELLE. Well, I think that was more or less a review of all the various major items, and I think I wanted it understood that it would take some time to get that particular phase of it organized to a point where the entire matter was left under the control which it was intended to be produced through the use of that company.

Mr. PECORA. Had it been the practice or the custom of the Detroit Bankers Co. to transfer to nominees, bank stocks that it held in order to enable the company, and I mean the Detroit Bankers Co. to avoid the liability that normally accompanies the holding of bank stock?

Mr. VERHELLE. Well, the particular type of item that would go into the Detroit Co. was collateral resulting from a loan that was—

Mr. PECORA (interposing). I am not asking about collateral.

Mr. VERHELLE. Well, that was the use of the Detroit Co.

Mr. PECORA. What was the use of the Detroit Co.?

Mr. VERHELLE. It acted as nominee for the collateral in the way of stocks securing, or the securities rather, securing loans. That was the principal function.

Senator COUZENS. In other words, before you made a loan secured by stock of the Detroit Bankers Co., for instance, you changed it over to the Detroit Co. as nominee. Is that what you mean?

Mr. VERHELLE. Not before the making of a loan, but after the loan was made, and if there was any difficulty indicated in the matter of collection of that loan, in order to assure ourselves of the collection of all dividends, why, the procedure—that is, the Detroit Co. was named as nominee—so that dividends would be forwarded direct to the bank, and so that the bank would definitely receive the benefit of them. And, on top of that, there was one other use for it, and that was in connection with collateral that appeared to be worthless, and which might some day possibly again have some value. The records of that company were set up so as to effect control over that type of collateral. The securities did not appear on the books anywhere, because they had no specific value, and when the occasion arose and they would obtain some value, if ever, why, then they would be definitely recorded on some specific set of books.

Mr. PECORA. What kind of stocks did you just refer to—bank stocks?

Mr. VERHELLE. Any stocks.

Mr. PECORA. Well, now, in view of the fact that in this memorandum you specifically called attention to the liability that normally accompanies the holding of bank stock, isn't it apparent that what you were referring to were bank stocks?

Mr. VERHELLE. Well, that particular phase of it refers to numerous bank stocks which had accumulated, that is, that particular phrase in that paragraph, where it refers to double liability, to numerous bank stocks, where the stocks were of little or no value, practically of no value I think in some cases, or where the bank was paying a dividend and where in order to obtain that dividend, a nominee was set up with a view to eliminating that particular liability.

Mr. PECORA. In other words, this Detroit Bankers Co., or its unit banks, would acquire title to bank stocks, and in order to assure itself of the collection of dividends that might be declared on those bank stocks, you suggested that steps be taken to improve the system then in vogue, and at the same time preserve in that system a feature that would not subject the company to the usual statutory liability accompanying the holding of bank stocks.

Mr. VERHELLE. Well, the error in your question is that the bank would not acquire title to those bank stocks. No, they would not acquire title to them. In fact, there was a very intricate document, which was drawn up and which was recorded with the transfer agent, that the bank acted only as nominee, and I have forgotten the details of it, but the attorneys are thoroughly familiar with it, and drew it up; to indicate definitely on the records of the bank in question that the only purpose in our having this stock transferred to this nominee, was to obtain the dividends resulting from the stock itself.

Mr. PECORA. And at the same time not subject the Detroit Bankers Co. to the statutory liability accompanying the ownership of bank stock?

Mr. VERHELLE. Well, quite naturally, that was a part of it.

Mr. PECORA. And that was an important part of it, wasn't it?

Mr. VERHELLE. I would say so.

Mr. PECORA. And the Detroit Co. was organized essentially to provide that kind of medium, to enable the Detroit Bankers Co. to accomplish those two objects.

Mr. VERHELLE. No, sir.

Mr. PECORA. Well, what other functions did the Detroit Co. exercise?

Mr. VERHELLE. The Detroit Co. was organized as a security company. Then they liquidated and its corporate form was continued, and it was used for that purpose.

Mr. PECORA. Yes; after its liquidation its organization was preserved so that it might function for those two purposes.

Mr. VERHELLE. That is, for the purpose of—

Mr. PECORA (interposing). For the purpose of insuring the collection of dividends on bank stocks, and at the same time putting the ownership of those bank stocks in a company that could not respond—

Mr. VERHELLE (interposing). No.

Mr. PECORA (continuing). To statutory liability because of its financial irresponsibility.

Mr. VERHELLE. No, sir. It was leaving the ownership with the borrower definitely. The ownership of all the stocks and against which the Detroit Co. acted as nominee, was to the best of my knowledge very definitely left with the borrower, and the only purpose, or the purpose served by this particular method of procedure, was to definitely have the dividends resulting from that stock sent to the institution handling the loan.

Senator COUZENS. Well, I do not understand how, if the stock remained in the name of the borrower, the bank paid the dividend to the Detroit Co.

Mr. VERHELLE. Well, that is something I can hardly give complete information on, because, while I did discuss it at great length and all that, I am sure you would get a much clearer information from the attorneys. But my definite understanding is that the ownership of the stock was left, and that the books of record with the transfer agent, the registrar, indicated the old owner to be the remaining owner after the transaction, but that the bank acted purely as a dividend-collecting agency. Documents were so set up, it seems to me, as to accomplish that particular end.

Mr. PECORA. Now, had you any discussions with Mr. Ballantyne prior to the writing by you of this memorandum of March 28, 1932, with respect to the subjects or items reviewed in this memorandum?

Mr. VERHELLE. I do not know. I may have. I would like to look over all of them. I can tell, probably, by doing that.

Mr. PECORA. All right [handing the paper to the witness].

Mr. VERHELLE (after looking over the papers). I think I did, sir, on numerous occasions [handing the papers back to Mr. Pecora].

Mr. PECORA. I notice in the annual report to the stockholders of the Detroit Bankers Co. for the year 1931, and with respect to which you gave considerable testimony last week, the statement is made therein regarding the book value of the stock on December 31, 1931. You said that the book value was in excess of \$40 a share, didn't you?

Mr. VERHELLE. That is right; yes, sir.

Mr. PECORA. In looking over the annual reports of the company to its stockholders for other years I do not find any mention of book value of the stock. Why was mention of it made in this 1931 report?

Mr. VERHELLE (after looking over his copies of annual reports). I thought it had been mentioned before, but—

Mr. PECORA (interposing). No.

Mr. VERHELLE (continuing). Apparently it had not.

Mr. PECORA. No.

Mr. VERHELLE. I know there were a great many inquiries along that line, and I don't recall just now why.

Mr. PECORA. Well, was it because the market value of the stock at that time was around \$30 a share that it was stated in the annual report that the book value was upwards of \$40 a share?

Mr. VERHELLE. My off-hand information would be that it was because of the number of inquiries we were receiving, that it seemed as though it was an important point to some people to know the book value of the stock.

Mr. PECORA. You do recall, don't you, that the market value of the stock on December 31, 1931, was less than what is stated to be its book value in this report?

Mr. VERHELLE. I would say so off-hand. I don't recall the market value at that time, but I would say so.

Mr. PECORA. At the end of the year 1930 do you recall that the market value of the stock was considerably in excess of its then book value?

Mr. VERHELLE. I cannot. I do not recall the market value.

Mr. PECORA. The market value on December 31, 1930, was around \$80 a share, as I understand it, whereas the book value was around \$50 a share.

Mr. VERHELLE. I wouldn't be sure of that, but will take your word for it.

Mr. PECORA. Wasn't it the purpose in setting forth the book value of the stock in the 1931 report, to bolster up the confidence of stockholders in the stock, because its then market value was \$30 a share or thereabouts?

Mr. VERHELLE (looking through his copies of annual reports). I do not recall the specific reason for that, I mean for that figure being included in there. I think the statement is the reverse; that is, that it might be it was so as not to destroy confidence.

Mr. PECORA. Now, Mr. Verhelle, is there anything you want to say to this committee in regard to any matters pertaining to the Detroit Bankers Co., or any of its unit banks, that you have not been asked about; or even if you wish to make any statement with regard to the matters that you have been asked about, you may do it now if you wish.

Mr. VERHELLE. Well, one of the statements I should like to make is in connection with that confidential report and, again, I wish just simply to repeat what I have probably needlessly spoken of before, and that is that any judgment should be reserved in connection with any of the individuals mentioned therein; and most particularly, with regard to the business organizations and the customers named. The purpose of the report was entirely different from that for which it has been used here, of course.

And I have just received a telegram that I should like to make mention of, from Mr. Daniel J. Goriea, whose name is mentioned in that report, in which telegram he states that he was cleared by Mr. Mills early in 1932 of the items appearing therein.

And I should also like to mention the telegram, which you have read, from Dr. C. R. Davis—

Mr. PECORA (interposing). Well, that is already in the record.

Mr. VERHELLE. I beg pardon; yes, that is already in.

Mr. PECORA. Yes.

Mr. VERHELLE. I have a letter that I would like to refer to if I may.

Mr. PECORA. Go ahead.

Mr. VERHELLE. Here is a letter from Mr. Davis in which he says that he is sending me a night letter, and is enclosing copy of a letter he sent to Senators Fletcher and Couzens, and to Mr. Pecora, and in which he repeats the telegram you have already read, and he says further:

My purpose is not to cause embarrassment but to help you, if you can make it clear in your testimony that your reports are incomplete, and if upon investigation it is inaccurate, you can make public apology, because the report has now become public property, because it is not complete and accurate, and by so doing you would do yourself a world of good as well as others.

Mr. PECORA. I will now call Mr. Stone.

Mr. VERHELLE. Are you now through with me?

The CHAIRMAN. Mr. Pecora, are you excusing this witness?

Mr. PECORA. He is excused for the present time, but, Mr. Chairman, it will be necessary for Mr. Verhelle to remain during the examination of other witnesses. I should like to have him hold himself here subject to call, and on account of Mr. Verhelle's position as comptroller of the Detroit Bankers Co. it is conceivable that other officers of that company, who will be called upon to testify here, may also refer to Mr. Verhelle as authority for their information, such as was the case with Mr. Ballantyne.

The CHAIRMAN. Very well, Mr. Verhelle, you will please remain.

(Thereupon Mr. Verhelle left the stand, with the understanding that he was to remain subject to the call of the committee.)

Mr. PECORA. Mr. Chairman, will you now administer the oath to Mr. Stone?

The CHAIRMAN. Mr. Stone, will you stand, hold up your right hand, and be sworn?

You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. STONE. I do.

TESTIMONY OF RALPH STONE, VICE CHAIRMAN OF THE DETROIT TRUST CO., DETROIT, MICH.

Mr. PECORA. Mr. Stone, will you please give your full name, address, and business or occupation to the committee reporter for the record?

Mr. STONE. My name is Ralph Stone; Parkhurst Apartments, corner of Agnes and Parker Avenues, Detroit, Mich.; vice-chairman of the Detroit Trust Co.

Mr. PECORA. How long have you been connected with the Detroit Trust Co. or its predecessor?

Mr. STONE. I have been with the Detroit Trust Co. since practically the date of its organization—I think within 4 or 5 months after it was organized.

Mr. PECORA. Will you state the date of its organization and give just a very concise chronology of your connection with the company?

Mr. STONE. It was organized, I believe, in January of 1901. I came with it, I think, in May of 1901 as trust officer. I subsequently became secretary, and then vice president, and then in 1912 president, and in 1927 chairman of the board.

Mr. PECORA. Well, when did you first become a member of its board of directors?

Mr. STONE. July 12, 1905.

Mr. PECORA. And to what date did you continue to serve as a director?

Mr. STONE. Until the date of the reorganization, or until the beginning of the bank holiday.

Mr. PECORA. Which was February 13, 1933?

Mr. STONE. February 11 or 13, 1933; yes.

Mr. PECORA. That trust company was one of the unit banks of the Detroit Bankers Co., wasn't it?

Mr. STONE. Yes.

Mr. PECORA. And when was its capital stock acquired by the Detroit Bankers Co.?

Mr. STONE. That would have been at the organization of the Detroit Bankers Co., which I believe was January 8, 1930.

Mr. PECORA. Did you become an officer or director of the Detroit Bankers Co. at the time of its organization?

Mr. STONE. Yes.

Mr. PECORA. How long did you continue as a director of that company?

Mr. STONE. Until, I suppose, the receiver was appointed for it.

Mr. PECORA. Continuously?

Mr. STONE. Yes.

Mr. PECORA. Were you also an officer of it?

Mr. STONE. No.

Mr. PECORA. Were you a member of any of the committees of the board of directors of the Detroit Bankers Co.?

Mr. STONE. I think not; I do not recall any.

The CHAIRMAN. What kind of business did the trust company do? Did it do a commercial banking business?

Mr. STONE. No, sir. Under the laws of Michigan, it was limited to trust business, and it took deposits on certificates of deposit, but it could not transact either a commercial- or savings-bank business.

Mr. PECORA. When I asked you if you were a director I meant a trustee of the Detroit Trust Co.

Mr. STONE. I was a director of it. There are no trustees.

Mr. PECORA. You were one of the 12 original so-called "trustees" of the Detroit Bankers Co., were you not?

Mr. STONE. Do you refer to the voting trust?

Mr. PECORA. Yes.

Mr. STONE. Yes, sir.

Mr. PECORA. And those 12 men have been referred to here as the founders, so to speak, of the Detroit Bankers Co. Do you consider that a proper characterization of them?

Mr. STONE. I do not know as you would call them the founders of it. I think stockholders and directors of all the various units were interested in this organization. They were what was called or what properly should be called the organization committee made up of the principal officers of the four banks and the Trust Co.

Mr. PECORA. From the time that you became, back in 1921, a trust officer of the Detroit Trust Co. have you given much study and consideration to the duties and functions and the growth and development of trust companies generally?

Mr. STONE. I think so; yes, sir.

Mr. PECORA. On one occasion you delivered a speech, did you not, at the thirteenth annual banquet of the trust division of the American Bankers Association held in New York City on February 18, 1932?

Mr. STONE. Yes, sir.

Mr. PECORA. I have a pamphlet here purporting to give the text of the speech in full. Will you look at it and tell me if it does?

Mr. STONE. Yes.

Mr. PECORA. I ask that it be marked in evidence, but not spread on the minutes, because of its length.

The CHAIRMAN. It may be marked.

(The pamphlet referred to and identified by the witness, entitled "The Growth of the Trust Institution", was received in evidence and marked "Committee Exhibit No. 101, January 30, 1934.")

The CHAIRMAN. What was the capital of your trust company, Mr. Stone?

Mr. STONE. \$3,000,000. Do you refer to it at the present time?

The CHAIRMAN. How many shares, and what was the par value of the stock?

Mr. STONE. As a trust company, 30,000 shares, \$100 par value.

Mr. PECORA. Among other things, in this address that you delivered in February 1932, I find the following statement [reading]:

According to the latest compilation made by the trust division of the trust companies and trust departments of State banks and according to the latest annual report of the Comptroller of the Currency, dated October 31, 1931, of trust departments of national banks, there are now approximately 5,000 trust institutions in the United States. They are divided about equally between State institutions and national institutions.

You also said in the same paragraph [reading]:

I think it is fair to say that the State banks and trust companies of the country are engaged in trust business to a greater extent than are the national banks. It may safely be said that more than four fifths of the invested capital of all the banks and trust companies of the country, both State and National, are interested in the successful conduct of the trust business.

I assume, Mr. Stone, that you had made some research and compiled, as result thereof, the data which you embody in this statement?

Mr. STONE. Yes, sir.

Mr. PECORA. According to another statement in this address of yours, you regard it as the most important and, at the same time, the most difficult of the duties of trust companies that of the investment of trust funds?

Mr. STONE. Yes.

Mr. PECORA. And that is still your opinion, of course?

Mr. STONE. Yes.

Senator COUZENS. Was that gained from experience?

Mr. STONE. It was.

Mr. PECORA. I find also this statement in your address to the trust division of the American Bankers Association [reading]:

Puzzled and perplexed by the difficulties involved in the selection of investments, individuals and even individual trustees are coming in vast numbers to the trust institutions as a haven of refuge. This has led to the establishment by the trust institutions of the trust-investment department, headed by an expert investment officer, with elaborate statistical and research equipment and personnel, supervised by the trust committee made up of directors and senior officers, and with final authority in the approval of investments vested in the executive committee of the directors of the company or bank.

I assume that statement is also based upon your experience of many years' standing?

Mr. STONE. Yes, sir.

Mr. PECORA. You also said as follows in your address [reading]:

It is difficult to conceive that greater care than is given by this system could be used in safeguarding the interests of the creators and beneficiaries of trusts. This in itself is sufficient warrant for the existence of the trust institution and an insurance of its continuance as an important and necessary part of the financial structure of the country.

I assume that that observation or statement was also based upon your experience and best belief?

Mr. STONE. I should say so.

Mr. PECORA. I also find the following statement in your address [reading]:

The trust institution is managed by men of integrity and honor who are actuated in their dealings with the trust clients by the same high ethical principles as are lawyers in dealing with their clients.

Senator COUZENS. What lawyers?

Mr. PECORA. Is that based on your experience?

Mr. STONE. I will say so; yes.

Mr. PECORA. Did you intend that as a compliment to trust officers?

Mr. STONE. Also to the lawyers.

Mr. PECORA. I also find the following statement in your address [reading]:

I can say to you, gentlemen, out of 37 years' experience as a trust officer with the benefit and, I may also say, with the very great pleasure of personal and intimate contact with hundreds of officers of trust institutions throughout the country, that he is a type of man of the highest character, of unquestioned mental and moral integrity, whose conduct is guided by ethical principles just as rigid and severe as those of any profession, and who deals with his clients with a full and sympathetic understanding of their troubles and needs. In serving and advising his clients he is not influenced in the slightest degree by the compensation which his employer receives. It cannot be said that he is so influenced any more than it can be said of the members of the two great professions, medicine and law; and it cannot be truthfully said of them.

That observation also, I take it, was based upon your 37 years of experience as a trust officer?

Mr. STONE. Yes.

Mr. PECORA. I find this also in your address [reading]:

The life of the trust official runs the whole gamut of human experience having to do with the problems of every known form of property and every kind of

business and occupation, of tragedy, pathos, and comedy. His relation with his clients is a very personal and intimate one, similar to that of the doctor and lawyer, for the administration of property and the disposition of income from it is inseparably bound up with family and living problems and personal relations generally.

That also was based upon your experience?

Mr. STONE. Yes, sir.

Mr. PECORA. I find the following as what might be called the peroration of your address. Speaking of the trust officer you say as follows [reading]:

His work calls for the exercise not only of good judgment but of patience and tact, for the trust official comes into contact with wives, children, and other dependents bereft of those upon whom they have implicitly relied for means of support, advice, and comfort. That he has succeeded in his difficult task is evidenced by the rapid growth and development of the trust institution. Finally, the success of the trust institution and its position in the community is built upon the confidence of the public in it. That confidence can be won only by the strictest observance of the rules of right conduct, by absolute adherence to the highest ideals in the conduct of the trust relation with its clients by its directors, officers, and employees. The trust institution's best asset is not measured by the figures showing in its balance sheet. The reputation for honesty, fair dealing, skill in managing the property placed in its charge, and faithfulness to the interests entrusted to it is its most valuable possession. To maintain such a reputation is the important and constant effort of the trust institution. It is peculiarly American. Its history is remarkably free from losses to its clients, and its future is in the hands of men who are devoted to their calling and who realize the sacred character of the trust reposed in them.

And I assume that those sentiments were based upon your years of experience as a trust officer?

Mr. STONE. Yes.

Mr. PECORA. Now, let me go back to your statement in your address in which you said [reading]:

In serving and advising his clients he is not influenced in the slightest by the compensation which his employer receives.

By "employer", of course, in that statement, you mean the trust company?

Mr. STONE. Yes.

Mr. PECORA. The Detroit Trust Co. had many trusts given to it to administer, did it not?

Mr. STONE. Yes.

Mr. PECORA. In the many years of its existence?

Mr. STONE. Yes.

Mr. PECORA. And these trusts included those in which widows and orphans were the principal beneficiaries?

Mr. STONE. Yes.

Mr. PECORA. And the company also had many clients and customers who came to it for advice with regard to the matter of investing funds?

Mr. STONE. Yes, sir.

Mr. PECORA. In rendering those services would you say, as a result of your personal knowledge and experience as an officer of the Detroit Trust Co., that its trust officers, in serving their clients and administering various trusts reposed in them, were not influenced in the slightest by the compensation which the trust company received for its services?

Mr. STONE. Yes.

Mr. PECORA. Do you know of instances, Mr. Stone, where the Detroit Trust Co. sold to trust estates committed to its care securities which it, the trust company, had acquired at a lower price from the Detroit Bankers Co., or any of its securities units?

Mr. STONE. I do not understand. Did you say, at a low price?

Mr. PECORA. That is, sold to trust estates securities which it, the trust company, had obtained at a lower price. That is, the trust company obtained securities at a price lower than that for which it sold those securities to various trust estates committed to its care.

Mr. STONE. Only in those cases where the trust instrument provided for it.

Mr. PECORA. What do you mean by that, Mr. Stone?

Mr. STONE. I mean, there was a provision in many trust agreements, I think, in testamentary trusts, irrevocable trusts, and so on, which provided that investments owned by the company could be sold to that trust at the prevailing market price, the price at which the securities were sold by the company to, say, its bond customers.

Mr. PECORA. What kind of securities which the Detroit Trust Co. had previously acquired from any of the security units or affiliates of the Detroit Bankers Co. did it usually sell to trust estates which it was administering?

Mr. STONE. I do not know that they acquired any. You mean, from the units that afterwards formed the Detroit Bankers Co.?

Mr. PECORA. Yes.

Mr. STONE. I do not think it acquired any, unless through the First Detroit Co.

Mr. PECORA. That was one of the investment affiliates or security units of the Detroit Bankers Co., was it not?

Mr. STONE. Yes.

Mr. PECORA. What kind of securities were they?

Mr. STONE. That was after we had abandoned our trust department—I mean, our bond department. So they would be securities that were proper for investment of trust funds, Government bonds, municipal bonds, public utilities, railroads, mortgage bonds—anything that was regarded as a proper investment for trust funds.

Mr. PECORA. You mentioned mortgage bonds as one of the classes of securities which the trust company sold to its trust estates. Was there a public quotation on mortgage bonds?

Mr. STONE. I think not, as a rule.

Mr. PECORA. Do you know of many instances where mortgage bonds or mortgage certificates representing an interest in a mortgage instrument were sold by the Detroit Trust Co. to an estate committed to its care at prices higher than the price at which the trust company itself had acquired those mortgage certificates?

Mr. STONE. No; except those trusts that I have already described, where the trust instrument contained a provision permitting it to do so.

Mr. PECORA. As a rule, who drew up those instruments that contained those provisions?

Mr. STONE. I think they were drawn by our counsel—oh, you mean mortgage-participation certificates?

Mr. PECORA. No; the trust agreements or trust instruments that you have referred to, which you say permitted the trust company to

sell securities to trust estates at prices higher than those which the trust had paid for those securities.

Mr. STONE. I do not know that I have any personal knowledge of any specific case, but I assume they were drawn by counsel for the maker of the trust; possibly by officers of the trust company.

Mr. PECORA. In addition to whatever profit the trust company made through that step-up, so to speak, in the price paid for those securities and sold to a trust estate, the trust company also collected its fees and commissions authorized by the laws of the State of Michigan, did it not?

Mr. STONE. You are referring, now, to cases where the trust instrument provided for or permitted an investment at prevailing market prices—or are you referring to cases where the securities were put in at cost?

Mr. PECORA. My last question did not have in mind any particular kind of trusts.

Mr. STONE. There was an investment fee——

Mr. PECORA. My last question merely was addressed to the point of finding out from you if it was not a fact that the trust company in administering various trust estates that were committed to it, charged the fees and commissions which it was authorized to charge by the laws of the State of Michigan.

Mr. STONE. Oh, yes; certainly.

Mr. PECORA. And those fees and commissions are fixed by statute, are they not?

Mr. STONE. No; not always. They are fixed by statute in the case of executor and administrator and trustee under a will, not as guardian or in the case of revocable and irrevocable trusts and agencies. Those are matters of private agreement.

Mr. PECORA. In those cases of private agreement what was the range of fees and commissions which the Trust Co. charged in such cases?

Mr. STONE. I do not believe I know what you mean.

Mr. PECORA. In those cases which you say were the result of agreement between the Trust Co. and those creating the trust?

Mr. STONE. Those charges varied according to the character of the property in the trusts. Some trusts will contain complicated property, with difficult propositions to handle, and the charges are commensurate with them.

Mr. PECORA. I want to show you, Mr. Stone, a memorandum or statement designed "Invoice No. 3045, Watson Realty Co., April 23, 1930", signed by a man named Felix M. Farrell. Do you recall him?

Mr. STONE. No. I should explain that since I became chairman of the board I have had no administrative work to perform. I doubt whether I know the names of all of the 600 employees. My duties were in connection with the policies of the company, organization and operation and extension of business, and consulting in a advisory capacity. I do not think I would know about the details of those things.

Mr. PECORA. Will you inquire of the gentleman who is sitting next to you if he knows Felix M. Farrell?

Mr. THOMAS. Yes; he was an employee at that time of the First Detroit Co. He was never an employee of the trust company.

Mr. PECORA. What is your name, sir?

Mr. THOMAS. W. J. Thomas.

Mr. PECORA. Mr. Thomas, the other day you asked me if you could be accorded the privilege of sitting with some of the gentlemen who might be called as witnesses here for the purpose of assisting them in the giving of their testimony. Do you recall that?

Mr. THOMAS. Yes, sir.

Mr. PECORA. And I told you that if you so wished, the privilege would undoubtedly be accorded to you. Do you desire that privilege in connection with the examination of Mr. Stone?

Mr. THOMAS. Mr. Stone and Mr. Browning, if that is agreeable to the committee.

Mr. PECORA. In view of the fact that you may be called upon in the course of the examination of Mr. Stone and Mr. Browning to supply statements or evidence, I suggest that the chairman now administer the oath to Mr. Thomas as a witness.

The CHAIRMAN (addressing Mr. Thomas). You solemnly swear that the testimony that you will give in these hearings will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. THOMAS. I do.

The CHAIRMAN. Give your name and address and occupation, please.

Mr. THOMAS. William J. Thomas, 279 La Salle Place, Grosse Pointe, Mich.; occupation, treasurer of the Detroit Trust Co.

Mr. PECORA. Mr. Stone, do you know of any mortgage bonds issued by the Watson Realty Co. that in due course were acquired by the Detroit Trust Co. and thereafter sold to various trust estates which were being administered by or which had been committed to the care of the Detroit Trust Co.?

Mr. STONE. No; I would not be familiar with them.

Mr. PECORA. Do you recall any security of that kind?

Mr. STONE. No, sir.

Mr. PECORA. Do you, Mr. Thomas?

Mr. THOMAS. I recall the name of the issue; yes—Watson Realty Co.

Mr. PECORA. Mr. Thomas, will you describe briefly the nature of these mortgage bonds issued by the Watson Realty Co.?

Mr. THOMAS. I am afraid I cannot do that. I assume it is a first mortgage on real estate. I do not even know the type of property.

Mr. PECORA. It was not a listed security, was it?

Mr. THOMAS. I doubt it. There were very few of the Detroit first-mortgage real estate bonds that were listed.

Mr. PECORA. I have a memorandum signed by Mr. Felix M. Farrell, who is known to you, indicating that on April 23, 1930, the First Detroit Co., which is one of the investment or security affiliates or units of the Detroit Bankers Co., acquired certain of these Watson Realty Co. mortgage bonds at 93½, transferred them to the Detroit Trust Co. on the same day at 95.759, and that the Detroit Trust Co. sold those mortgage bonds, some of them at par and some at 97, to various trusts committed to its care. Are you familiar with any of those facts?

Mr. THOMAS. Of course, I do not remember the details of those particular sales. I know that many sales were made of that nature.

Mr. PECORA. About how many? Could you give the committee an idea, even approximately, of the amount of mortgage bonds that were acquired first by the First Detroit Co., transferred at an increased price to the Detroit Trust Co., and then sold by the Detroit Trust Co. at a further increase in price to trusts that it had charge of?

Mr. THOMAS. I would hate to hazard a guess on that. You mean, from the time the First Detroit Co. was organized up until the present time?

Mr. PECORA. Well, if you can give it to us for that period of time.

Mr. THOMAS. I have no conception of the volume, really. Of course, I do know—

Mr. PECORA. You were the treasurer of the Detroit Trust Co., you say?

Mr. THOMAS. Yes; but all those sales passed through what we call our trust investment department. I had very little jurisdiction over those sales. I can say this, that in cases of that kind, if the Detroit Trust Co. made a profit they were sold entirely to so-called prevailing market price trusts at the market at that time. Where you would get your market price for mortgage bonds of that character it would be a price that the First Detroit Co., or whomever the broker might be, was selling them to outside customers.

Mr. PECORA. That would be a market price more or less controlled by the Detroit Co., would it not, under those circumstances?

Mr. THOMAS. Not necessarily. The bonds may have been dealt in by various brokers in Detroit.

Mr. PECORA. Who fixed those prices, and what quotations were obtained?

Mr. THOMAS. I suppose, just brokers. I know of no other way.

Mr. PECORA. Mr. Stone, let me ask you this. In view of the very splendid sentiments that you gave expression to in your address in February of 1932, can you reconcile transactions of the kind that I have just been discussing with Mr. Thomas with your sentiments that in serving and advising clients the trust officer is not influenced in the slightest by the compensation that his employer receives?

Mr. STONE. I do not see that it violates that, inasmuch as they were placed in the trusts by written agreement with the people who created the trusts, at prices to which they agreed; and where there are no such arrangements made with the creators of the trust, they were put in at cost without profit to the trust company.

Mr. PECORA. In those instances were not the securities sold by the trust company itself, the securities sold to those trusts?

Mr. STONE. Yes.

Mr. PECORA. Did the trust company select securities in many instances consisting of mortgage bond certificates which it had acquired at a lower price from the First Detroit Co. which in turn had acquired them at a lower price than that at which it sold to the Detroit Trust Co.?

Mr. STONE. Yes; but I would have to repeat what I said before, that the price was agreed to by the makers of the trust, and if there was no such special arrangement in the trust, the price was cost to the trust company—the First Detroit Co., in some cases.

Mr. PECORA. Can you produce the text of any such agreement?

Mr. STONE. I think we have a copy of the clause.

Mr. PECORA. I would like to have it.

(Witness produces a paper which he hands to Mr. Pecora.)

Mr. PECORA. The clause that you have produced here reads as follows [reading]:

In the investment and reinvestment of funds by the trustee thereunder said trustee is authorized to purchase investments from the Detroit Trust Co., owned by it, and at prevailing market prices. That is, prices for which such securities were sold to its customers.

That is the clause you referred to, Mr. Stone, is it?

Mr. STONE. Yes, sir.

Mr. PECORA. In the cases that have been alluded to here, involving the sale to trusts of mortgage bond certificates of the Watson Realty Co., there appears to have been a spread in those certificates of 93½, which was the unit cost to the First Detroit Co., to par in some instances, which was the price at which they were sold to the trusts. Do you consider that a justifiable act on the part of a trust company that is administering estates and handling trust estates, with a realization of the sacred character of the trust imposed on them?

Mr. STONE. You mean a spread of 93½ to par?

Mr. PECORA. Yes.

Mr. STONE. Six and a half points. I think, in general, yes. I think it all depends upon the nature of the security, the amount of the work, the expense involved in making the investigation and making the appraisal, examining into the income, and the expense to which the trust company had been put in connection with it.

Mr. PECORA. You made those investigations and had those appraisals made with regard to mortgage bond certificates that the trust company acquired from the investment affiliate of the Detroit Bankers Co.?

Mr. STONE. I think not. I think the investment company would make that itself.

Mr. PECORA. And the Detroit Trust Co. was owned by the same interests that owned the investment unit; is not that so?

Mr. STONE. Yes—what is that question, please?

Mr. PECORA. The Trust Co. at that time was owned by the same company that owned the investment unit in question, the First Detroit Co.?

Mr. STONE. That is correct.

Mr. PECORA. In the case of trusts that were operating under an agreement containing the clause that has been read into the record here, were the persons interested in the trusts told of the price which the Detroit Trust Co. had paid for those mortgage-bond certificates?

Mr. STONE. I imagine not. I would not be sure of any specific case, but I think not.

Mr. PECORA. Would you say that in any case they were told of the fact that those securities had been in turn acquired by the Detroit Trust Co. from the investment affiliate of the Detroit Bankers Co.?

Mr. STONE. Oh, yes. I should think the vouchers would show a direct purchase from the First Detroit Co.

Mr. PECORA. But the terms of purchase were not indicated.

Mr. STONE. If they bought direct from the First Detroit Co., they would be.

Mr. PECORA. Do you know of such cases?

Mr. STONE. Not personally. I did not have anything to do with them.

Senator ADAMS. For my own information, do I understand that the Trust Co., which became the trustee, was practically buying from itself, for the use of this trust, securities, and making a profit out of the transaction?

Mr. PECORA. It goes even beyond that. The Trust Co. was a unit of the Detroit Bankers Co., and it purchased mortgage-bond certificates from one of the investment affiliates of the same company, the Detroit Bankers Co., at a price which yielded a profit to the investment affiliate, and then sold those to the trust estates at a still higher price.

Senator ADAMS. Was the trust estate charged a commission or an expense charge in handling the money?

Mr. PECORA. Yes. That is true, is it not, Mr. Stone?

Mr. STONE. Yes.

Mr. PECORA. The Trust Co. collected its usual fees and commissions, those fixed by the statute, in addition to the profit it made through the mark-up of prices.

Mr. STONE. I repeat again, in those cases where they had permission to do so by the terms of the trust investment; not in other cases.

Mr. PECORA. Yes; I say in those cases, in addition to making the profit that it realized from the sale of its own securities to the trust estates, it also collected the fees and commissions that it was authorized by law to receive as trustee, did it not?

Mr. STONE. I think where there was an investment fee provided in the instrument itself there was no profit taken. Where there was not an investment fee there was a profit taken only in cases where the instrument expressly provided for it.

Mr. PECORA. And in those cases, where an investment fee was provided for, did the Trust Co. also charge a fee or commission for the handling of the investment funds in addition to the investment fee?

Mr. STONE. I think not.

Mr. PECORA. Are you sure of that, Mr. Stone?

Mr. STONE. No; I am not sure. I was not the officer who administered that, so I am speaking not from very definite memory about it.

Mr. PECORA. Mr. Stone, is there any officer or former officer of the Detroit Trust Co. now available who had a longer experience and affiliation with the Trust Co. than you have had?

Mr. STONE. No; not in all capacities. That is true.

Senator COUZENS. You know, Mr. Stone, that in addition to the profit on these transactions which Mr. Pecora has been talking about, you made a collection charge even though you waived an investment charge?

Mr. STONE. Oh, yes; that is for services as trustee.

Mr. PECORA. That is what I am getting at.

Mr. STONE. Yes.

Senator COUZENS. That is what Senator Adams was driving at.

Senator ADAMS. In addition to that, Senator Couzens, the question in my mind was not only as to the propriety, but to the legality of a purchase by a trustee for a trust from itself, regardless of the price at which it is purchased.

Senator COUZENS. I think that memorandum gave that authority.

The CHAIRMAN. It depends on the trust agreement.

Senator ADAMS. I will go further than that and question the right of the trustee to make contracts with the cestui que trust which enabled it to have the opportunity to take advantage of it.

Mr. PECORA. I know of no other cases, Senator, where an agent or trustee would be permitted to keep a profit which it made under similar circumstances.

The CHAIRMAN. Did the Trust Co. also have the right, after acquiring certain securities for a trust estate, to change that investment at its will, and sell those securities for the trust estate, and buy other securities for the trust estate?

Mr. STONE. Oh, yes; in the performance of its regular duties as a trustee.

The CHAIRMAN. They could do that at will, without consulting the cestui que trust?

Mr. STONE. Some trust instruments provide for approval by cestui que trusts. Some do not. Some are minors who have not judgment and discretion enough. In some there are no provisions at all giving anybody, where it is a cestui que trust or co-trustee, powers of that kind, and in those cases the Trust Co. had to exercise it alone. Where the instrument provided for consultation and getting the approval of the cestui que trust or co-trustees, they got it. Then there were frequent accounts, quarterly, semiannually, and annually, two copies of which were sent to the cestui que trust, showing all the facts, and filed in court, in the case of court trusts, so that they were all fully informed.

Mr. PECORA. Mr. Thomas, I want to show you a statement signed by Felix M. Farrell, under date of January 9, 1934. Will you look at it and tell me if you recognize the signature to be that of Mr. Farrell?

Mr. THOMAS (after examining paper). I think that is Mr. Farrell's signature, although I have only seen it on one or two occasions. I am not familiar with the exhibit at all. I do not believe I have ever seen it.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Statement January 9, 1934, signed Felix M. Farrell, was received in evidence, marked "Committee Exhibit 102, January 30, 1934", and the same will be found at the conclusion of today's proceedings.)

Mr. PECORA. Mr. Stone, do you know a gentleman employed as an auditor by the Detroit Trust Co., by the name of Van Every?

Mr. STONE. Yes.

Mr. PECORA. I show you this document, which bears the signature reading "F. C. Van Every", as nearly as I can make it out. Will you look at it and tell me if you recognize it to be the signature and handwriting of Mr. Van Every?

Mr. STONE. (after examining paper). Yes, I think it is.

Mr. PECORA. I offer that in evidence.

The CHAIRMAN. Let it be admitted.

(Document signed F. C. Van Every, Jan. 9, 1934, was received in evidence, marked "Committee Exhibit No. 103, January 30, 1934," and will be found at the conclusion of today's proceedings.)

Mr. PECORA. The first one of these two exhibits, marked "Committee's Exhibit No. 102", bears the signature of Mr. Felix M. Farrell under the following statement (reading):

I hereby verify the above unit costs and other relative figures are as per the records of the First Detroit Co.

It is dated January 9, 1934. It shows, among other things, that there were acquired by the Detroit Trust Co.—the transaction being indicated by invoice no. 7460—\$100,000 face value of mortgage bonds, gold notes, referred to as Rex Clark collateral gold notes; that the unit cost of those notes to the First Detroit Co. was 95; that the unit cost thereof to the Detroit Trust Co. was 99½. According to the other exhibit marked "Committee's Exhibit 103 in evidence", \$96,000 of that issue of gold notes were sold by the Detroit Trust Co. to trust clients at 100. That would show a spread of five points in those gold notes between the cost to the First Detroit Co. and the cost to trust clients of the Detroit Trust Co.

It also appears, according to exhibit 103, that the remaining \$4,000 of those Rex Clark collateral gold notes were sold to a trust client of the Detroit Trust Co. at 99½.

From exhibit 102 it appears that \$50,000 face value of M. J. Gallagher gold notes were acquired by the First Detroit Co. at a cost of 97¼, and were sold to the Detroit Trust Co., owned by the same holding company as the First Detroit Co., at 99, and sold to trust clients by the Trust Co., \$31,000 worth at 100 and \$19,000 worth at 99.

The CHAIRMAN. Do you know whether the trust clients lost anything by that operation or not?

Mr. STONE. Are you referring to this?

The CHAIRMAN. Yes.

Mr. STONE. That is quite a question, Senator. I am afraid I would have to have it written out and study it and refer to the record, and make an investigation.

Senator ADAMS. Mr. Stone, in these sales from the Trust Co. to its trust clients, who represented the clients?

Mr. STONE. In the case of court trusts?

Senator ADAMS. No. I mean where you were the trustee?

Mr. STONE. Oh, yes.

Senator ADAMS. Who represented the seller of the securities?

Mr. STONE. The Trust Co. itself.

Senator ADAMS. So the Trust Co. was the buyer and the seller.

Mr. STONE. Are you referring to those cases of purchase through the First Detroit Co.?

Senator ADAMS. No; I am referring just to the cases where the Trust Co. itself sold its own securities to trusts for which it was the trustee.

Mr. STONE. Yes.

Senator ADAMS. I understood from you that in those sales the Trust Co. represented the trust as the vendee, and represented itself

as the vendor. In which capacity did it decide what was a reasonable spread?

Mr. STONE. Well, there was no spread. You are talking now about purchases direct from the Trust Co.

Senator ADAMS. In which capacity did it decide that it was a proper sale or a proper purchase?

Mr. STONE. In the case of what might be termed cost trusts, where there was no provision such as you read there, prevailing market price provision, the securities were sold to the trusts at cost, and the Trust Co.—

Senator ADAMS. But the Trust Co. decided——

Mr. STONE. Yes.

Senator ADAMS. The Trust Co. decided, representing the trust, that it was a good purchase from itself. In other words, this Trust Co. was on both sides of the transaction.

Mr. STONE. That is true. That was a practice that began with the organization of the company, and when any of the securities defaulted they were taken off the hands of the Trust Co. That practice continued for 30 years, up to the time of the beginning of the depression, so that it could be said there were no losses to the trusts.

Senator ADAMS. Burglary goes back further than that, but it has not become legitimate yet. It seems to me it is not only illegal, but a vicious practice.

Mr. STONE. You refer, I suppose, to the common-law rule with respect to an individual dealing with himself as trustee.

Senator ADAMS. Yes; not only the common-law rule but the matter of ordinary ethics, that no man can deal fairly and represent both sides of a transaction.

Mr. PECORA. And make a profit therefrom.

Senator ADAMS. Or even without that because, Mr. Pecora, he was selling his own stuff. Necessarily there was an interest, more or less, in keeping or disposing of it, forgetting the profit.

Mr. PECORA. But I would suggest that in those instances where a profit was realized, it is even more reprehensible.

Senator ADAMS. It might be even worse where there was a loss.

Mr. STONE. Might there not be a difference, Senator, with the advent of trust companies?

Senator ADAMS. I do not think morality has changed any with the advent of trust companies.

Mr. STONE. I do not refer to that element—where the purchases were made for the trusts at cost.

Senator ADAMS. From whom? From themselves?

Mr. STONE. No; from the mortgagor, or some broker, or railroad.

Senator ADAMS. That is entirely different.

Mr. STONE. That is what I mean. That was our practice. We were conducting a bond department, and we were buying for company investment. At the same time we bought for our trusts, and we were able to buy at wholesale prices. The trust would get the benefit of that, and we would put these securities in the trust, having bought them for them. At one period of our career we earmarked them for trust investment.

Senator ADAMS. That would be perfectly proper; but after they had become the property of the Trust Co., the question I raise is the

right to then dispose of them to your trusts. It seems to me it is just as feasible to speak of a man being his own son. They are two conflicting relationships which cannot be merged.

Mr. STONE. I agree with you as to that; but these purchases were made, and while they may have been carried temporarily with the title in the Trust Co., they were bought in blocks and in volume, so that the trust funds could be promptly invested, and it was done without profit to the Trust Co. Unfortunately our attorney missed his train today. He would probably be able to give a better interpretation of that than I can.

Mr. PECORA. Who can, Mr. Stone?

Mr. STONE. Mr. Long, our attorney.

Mr. PECORA. Did he have anything to do with these transactions?

Mr. STONE. Oh, no; but I am discussing with the Senator the validity or the propriety of purchasing in blocks by the Trust Co., and placing them there, shortly thereafter, in the trust, having bought them for that purpose. That was our practice.

Mr. PECORA. It was also your practice to purchase such securities in large quantities from an investment unit or affiliate of the Detroit Bankers Co., of which the Detroit Trust Co. was also a unit, was it not?

Mr. STONE. Yes.

Mr. PECORA. Those transactions were at a profit to the investment unit, were they not?

Mr. STONE. They were at a profit to the investment unit, yes; in some cases, but not at a profit to the Trust Co.

Mr. PECORA. Those transactions can be discussed by you as a trust officer of 37 or more years' experience without regard to the question of naked legality, can they not?

Mr. STONE. Yes, sir; certainly.

Mr. PECORA. After all, they rest in good conscience rather than upon statutory declarations, do they not?

Mr. STONE. That is correct.

Mr. PECORA. Can you harmonize these transactions with the sentiments to which you gave expression in your address before the trust division of the American Bankers Association in February 1932, which I have read into the record this afternoon?

Mr. STONE. I see no inconsistency, where the Trust Co. itself made no profit.

Mr. PECORA. But the Trust Co. itself, in many of these instances, did make a specific profit, did it not?

Mr. STONE. Only where the instrument permitted it.

Mr. PECORA. Do you think that that was in harmony with the principles you laid down in your address before the American Bankers Association 2 years ago?

Mr. STONE. Yes; I do.

Mr. PECORA. You do?

Mr. STONE. Yes, sir. I do not see any inconsistency.

Mr. PECORA. Do you think that is a fulfillment of the duties of a trustee, evidenced by a realization, to use your own language from that address, of the sacred character of the trust reposed in it?

Mr. STONE. Yes; I do not see where it is reprehensible, where the Trust Co. made no profit out of it.

Mr. PECORA. You think the Trust Co. should be permitted to act as trustee of an estate, and to purchase from itself, as a trust company, securities at a profit to the Trust Co.?

Mr. STONE. No; it did not do that.

Mr. PECORA. It is shown here from the last two exhibits in evidence that it did do that.

Mr. STONE. I do not know of those cases. I think really, when you get down to individual cases, Mr. Browning, our president, who was the executive officer, would be more familiar with the process through which those ran than I would.

Mr. PECORA. Who would? Mr. Browning?

Mr. STONE. Mr. Browning; yes. I am perfectly willing to testify on questions of principle, and I will try to figure out all those various changes in price there, and the various steps, if you wish me to. I do not wish to avoid any examination on the subject at all, but I think the committee will get a much clearer idea of how that operated, and what the effect of it was, through a man who had something to do with the administration of it.

Mr. PECORA. Do you know whether Mr. Browning subscribed to the sentiments that you enunciated in your speech of 2 years ago?

Mr. STONE. No; I do not know.

Senator COUZENS. How long have you known Mr. Browning?

Mr. STONE. Twenty-five or thirty years.

Senator COUZENS. Don't you know him well enough—

Mr. STONE. I should think he would.

Senator COUZENS. I thought he would, too, based upon my knowledge of him.

Mr. STONE. Yes.

Senator COUZENS. There is one thing that concerns me. In this so-called "prevailing market price clause" it is said [reading]:

In the investment and reinvestment of funds by the trustee hereunder, said trustee is authorized to purchase investments from the Detroit Trust Co., and owned by it, at prevailing market prices; that is, prices at which such securities were sold to its customers.

And yet I observe, in the exhibit referred to by Mr. Pecora, that you sold a lot of \$96,000 at 100 and \$4,000 at 99½, so that the man who bought the \$96,000 got stuck at 100 and the man who bought the \$4,000 was sold at 99½. How do you harmonize those prices with the clause referred to, in which it is said that they are to be sold at the prevailing market price?

Mr. STONE. I do not know what the reason might be, Senator. If you examined into the facts there might be some reason for it, but I do not know what it would be myself.

Senator ADAMS. You will notice the qualification on the market price—the price at which they sell it to their customers.

Senator COUZENS. That can be any old price.

Mr. PECORA. The price which the Trust Co. itself makes.

Senator COUZENS. Yes. I was hoping that the testimony would indicate that they were treating all their customers alike, and that the customer's price might be a fixed price, rather than a varying price as indicated in the exhibit.

Mr. STONE. One of them may be a cost trust, and the other—

Senator COUZENS. If it was a cost trust, then you were certainly

defrauding the trust, because the cost to the unit, one of your affiliates, was 95, and you sold it at 99½, although I suppose technically you could have said it cost you 99½, because that was the price you paid your affiliate.

Mr. PECORA. When the Trust Co. bought securities of this kind which it afterward sold to itself as trustee for trust estates committed to it—securities from an investment affiliate owned by the Detroit Bankers Co.—it was virtually dealing with its own principal, was it not, in the sense that the Detroit Bankers Co. was also the owner of the Trust Co. as well as of the investment affiliate?

Mr. STONE. No; I think not. At least not in accordance with the opinion of our attorney, who said we were entitled to deal with it.

Senator ADAMS. You had doubts about it, so that you ask your attorney.

Mr. STONE. Yes.

Mr. PECORA. Let us look at the substance rather than the form. The First Detroit Co. was an investment affiliate of the Detroit Bankers Co., was it not?

Mr. STONE. Yes.

Mr. PECORA. A wholly owned affiliate of that company?

Mr. STONE. Yes.

Mr. PECORA. And the Detroit Trust Co. was likewise a wholly owned affiliate of the Detroit Bankers Co.?

Mr. STONE. We had enough doubt about it—I don't think there is any question about that—so that we discontinued the practice later.

Mr. PECORA. When was this practice discontinued?

Mr. STONE. By the First Detroit Co.?

Senator COUZENS. Or any affiliate?

Mr. STONE. I think January 29, 1931. In other words, the First Detroit Co. was organized March 12, 1930, and for 9 months we purchased from it, and then discontinued the practice in January 1931.

Senator COUZENS. Did you buy from any other affiliate after that?

Mr. STONE. No.

Mr. PECORA. Will you look at Committee's Exhibits Nos. 102 and 103, respectively, both of which relate to the same kinds and classes and amount of securities, and tell us if you recognize any of the securities shown thereon to be securities that are now in default?

Mr. STONE. I could not tell you that, Mr. Pecora. I kept no track of that personally.

Mr. PECORA. Perhaps Mr. Thomas, the erstwhile treasurer of the Trust Co., could tell us.

Mr. THOMAS. What was the question again?

Mr. PECORA. Are there any of the securities specified in those two exhibits that are now in default?

Mr. THOMAS. I do not know whether there are in that list or not, unless you consider those participation certificates in technical default. They are not paying all of their interest. They are paying partial payments on the interest.

Mr. PECORA. That is considered a default, is it not?

Mr. THOMAS. Well, partial default. I do not know whether any of these others are in default or not.

Mr. PECORA. Mr. Stone, was not the First Detroit Co. the securities affiliate originally of the Detroit Trust Co. itself?

Mr. STONE. It was formed by a combination of the bond business of the Detroit Trust Co. and the bond business of the First National Co. At the start the Detroit Trust Co. bond department owned 70 percent of the stock of the First Detroit Co., and the First National Co. owned 30 percent of the stock.

Mr. PECORA. But the First Detroit Co. was organized originally as an investment affiliate of the Detroit Trust Co., was it not?

Mr. STONE. Yes. It owned all the stock. It owned part of the stock, and then subsequently all the stock.

Mr. PECORA. Mr. Stone, I show you what purports to be a photostatic copy of a resolution adopted by the executive committee of the Detroit Trust Co. on January 2, 1931. Referred to therein is a resolution creating a trust for investment of trust funds. Will you look at this photostatic copy and tell me if you recognize it to be a true and correct copy of such resolution so adopted by the executive committee of the Trust Co. on the date mentioned?

Mr. STONE (after examining paper). Yes, sir; it is.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Copy of resolution creating trust for investment of trust funds, adopted by executive committee, Detroit Trust Co., Jan. 29, 1931, was received in evidence, marked "Committee Exhibit No. 104, January 30, 1934", and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. Was this resolution adopted at about the time that, under the advice which you say the company received, it discontinued its former practice?

Mr. STONE. On the same day, I believe, at the same meeting.

Mr. PECORA. And this was designed to take the place of that practice?

Mr. STONE. Yes.

Mr. PECORA. The resolution, which has been marked in evidence as "Committee's Exhibit 104", reads as follows [reading]:

Resolved, That in the judgment of this committee a distinct and substantial advantage will accrue to the numerous trusts being administered by this company from time to time by providing a means whereby the purchases of securities in the investment of the funds of such trusts may be consolidated and made at convenient and advantageous times in substantial blocks or amounts which may be carried in readiness to be turned over in smaller amounts or individual items to each respective trust as and when such trust may have funds howsoever small in amount for investment.

Resolved further, That to accomplish the purpose and result aforesaid there is hereby segregated and set aside, out of the funds of this company, the sum of \$250,000, which, and the securities purchased therewith, shall be carried in a special account on the books and records of this company, which shall be designated "trust investment trust", and shall be handled and administered in all respects and particulars as if an independent trust created by a third part for the objects and purposes and with the terms and conditions in these resolutions declared and established, which, in addition to the foregoing, include the following, namely:

(1) The said fund shall be invested and kept invested in securities which are proper for trust investments under the terms and provisions of the trusts at such time being administered by this company as trustee, and in the absence of any express terms and provisions then under the law applicable thereto, and in such proportions of different kinds or classes as the officers of this company administering said fund from time to time may determine. Purchases for investment of said fund shall not be made in smaller blocks or amounts than \$10,000, unless an especially advantageous purchase of a smaller

amount happens to be possible at a particular time. The foregoing is subject to the exception that not exceeding 10 percent of the amount put into the trust created hereby out of the funds of this company may be invested and reinvested from time to time in securities of the nature aforesaid in small or odd amounts, so as to facilitate the investment of the funds of trusts entitled to the benefit hereof and having on occasion small or odd amounts to invest. All securities purchased with and for said fund shall at all times be clearly and explicitly identified as such.

(2) As often as any trust then being administered by this company shall have funds for investment securities of the kind and nature proper for the investment of the funds of the particular trust shall be transferred from the trust created hereby to such trust in the amount needed at the actual bare cost thereof to the trust created hereby or at the then current market price thereof whichever shall be the lower, subject however to the obligation of such transferee trust to account to the trust created hereby for the interest or income which accrued on the securities so transferred up to the time of such transfer of such securities as and when such transferee trust shall make collection thereof. Nothing herein contained shall however limit or restrict this company as trustee of said transferee trust in making its regular charge under and to such transferee trust for investing the funds thereof the same as if the original act of the purchase for the trust created hereby had been performed for such transferee trust directly and immediately.

(3) The interest and income accruing from time to time on the funds and securities of the trust created hereby after being collected and received shall be paid over from time to time to this company as beneficiary of income. Profits on the sale of any securities made pursuant to the provisions of paragraph no. (4) hereof shall not be income within the intent hereof.

(4) The turning over of securities to other trusts at cost or current market whichever may be lower may result from time to time in losses to the principal of the trust created hereby. To protect against substantial impairment of the funds of the trust created hereby the officers of this company administering the same may build up and maintain a reserve equivalent to 10 percent of the amount put into the trust created hereby out of the funds of this company. Such reserve may be so built up and maintained by the sale from time to time to third parties other than any trust then being administered by this company of securities in the trust created hereby as and when it may happen that the same can be sold at a net profit. But such power and authority to sell securities shall be strictly limited to sales to create or replenish said reserve or to minimize possible loss and except for such specific purpose no securities shall be sold or transferred other than as in paragraph no. (2).

(5) The trust created hereby shall become effective on the 31st day of January 1931. All trusts being administered by this company on said day and from time to time thereafter while the trust created hereby shall continue and all beneficiaries of each such trust shall have an interest and right hereunder to the execution and performance of the trust hereof for the benefit of said respective trusts so being administered from time to time. The trust created hereby may be terminated at any time by resolution of the executive committee or board of directors of this company approved in writing by at least one adult beneficiary not being a director, officer, employee, or stockholder of this company or any affiliated corporation, of each of at least six separate and independent trusts then being administered by this company or approved by any court of competent jurisdiction upon application by this company with said number of such beneficiaries before the court as representatives of all trusts being administered by this company and all beneficiaries thereof. On termination the funds and securities then held shall become the absolute property of this company. The amount of the trust fund may be increased from time to time by resolution of the executive committee or board of directors of this company and the transferring of funds so determined thereto, but no withdrawal from or decrease of the trust fund hereunder may be made except in manner and form as herein provided for a termination of the trust.

(6) If and as often as it shall appear to be to the greater furtherance of the intention and purposes of the trust created hereby to acquire a larger amount of securities than the funds available will pay for, the trust created hereby is empowered to borrow from this company, and this company is empowered to advance to this trust any sum deemed advisable so to be borrowed; such advances, however, shall be made for the purpose only of providing funds to the

trust created hereby for the acquisition of securities for the purposes contemplated by these resolutions, and the proceeds of such advances shall not be considered as an increase of the trust fund created hereby, and shall be on and subject to these conditions: Such advance shall be repaid only as and when from time to time the securities therewith shall be taken under and pursuant to paragraph two (2) hereof by trusts entitled to the benefit hereof, the amount to be repaid shall be only the amount realized by the trust created hereby on the transfer thereof on the basis specified in paragraph two (2) hereof, and the only interest or other charge for the use of the funds so advanced shall be the interest or income actually realized in cash by the trust created hereby from the securities acquired with the funds so advanced.

Trusts being administered by this company as used herein shall include estates and agencies as well as trusts proper. Trustee as used herein shall include executor, administrator, guardian, receiver, and agent as well as trustee proper. Likewise, any of the foregoing shall be entitled to the benefit hereof where this company is such fiduciary with one or more others as well as where sole fiduciary.

Resolved further, That the officers of this company are severally authorized and directed to execute and deliver all papers and documents and do all acts requisite or appropriate to the due and effective constituting of the trust hereby created or intended so to be and to the due and effective administering thereof, the respective officers having like power and authority in relation hereto which each has in relation to the business and affairs, including the administration of trusts, of this company generally and with like power of delegation from one officer to another.

Mr. PECORA. Under the plan set up by this resolution did the trust company make a charge called an investment fee, through the trust estate for the funds it invested in this trust investment trust?

Mr. STONE. It would in case trusts were bought at cost and the trust agreement provided for the investment fee.

Mr. PECORA. And it charged that investment fee in addition to the other fees and commissions that it was entitled by law or other agreement to receive?

Mr. STONE. No. If the fees are fixed by law they are fixed only by law, as I said a little while ago, in case of court trusts, so-called "probate trusts", trustees under a will or an executor or an administrator.

Mr. PECORA. Where this 1-percent investment fee was charged to the trusts whose funds were invested in this trust investment trust created under this resolution, did the trust company acting as trustee make any charge for its service as such trustee additional to this 1-percent investment fee?

Mr. STONE. Only in case permitted by law or by the terms of the agreement.

Mr. PECORA. That is exactly what I am trying to get at.

Mr. STONE. Yes.

Mr. PECORA. That this 1-percent investment fee was in addition to those other fees and commissions.

Mr. STONE. No; it was provided in the agreement itself, and so far as the fees in the court were concerned, probate fees, the probate court permitted them, allowed them on accounting, where the trust company did the work of finding the investments, investigating them, and purchasing them. It was for that service that the investment fee was charged, and the securities were put in the trust at cost, so that it made just the one fee out of it.

Mr. PECORA. What kind of securities were put into this investment trust?

Mr. STONE. They were securities that are proper investments for trust funds.

Mr. PECORA. Were any of those securities purchased from any of the investment affiliates or units of the Detroit Bankers Co.?

Mr. STONE. I don't think I would be able to say as to that.

Mr. PECORA. Who do you think—

Mr. STONE. I think maybe Mr. Browning would recall. I could give my best recollection about it. I should say that they were not, because that trust was created when the company abandoned the practice of purchasing from the First Detroit Co. and made all its purchases on the outside. It made some purchases through the First Detroit Co. at no profit to the First Detroit Co. That was its policy established in January 1931. So I think the answer to your question is that it did not.

Mr. PECORA. Did it make any investments through the medium of this trust investment trust in securities issued by or purchased from any of the units of the Detroit Bankers Co.?

Mr. STONE. I think not. It was bought on the outside through brokerage houses and bond houses and so on.

Mr. PECORA. Are you sure of that?

Mr. STONE. Oh, I am not sure; no; because that would mean I would have to audit the books of the company to be dead sure of it. But if it was done, it was not a part of its regular practice.

Senator COUZENS. What was the exact purpose of fixing this investment trust? It is quite lengthy, but I don't think I got the full import of it.

Mr. STONE. That was for the purpose of purchasing securities in blocks at a time when the market was favorable for the purchase. Issues were put out, for instance, on public utility companies, and there might not be funds in their trusts at that particular time to purchase the securities put out by investment houses at that time. So they collected securities in this trust investment fund so as to be ready to invest promptly in the trusts when the trusts had funds, as and when they had funds for investments. It was creating what you might possibly call a revolving fund in order that trust funds might be invested promptly and to the best advantage.

Senator COUZENS. Is that the only purpose?

Mr. STONE. Yes; that is all.

Senator COUZENS. What prevented the Detroit Trust Co. from investing its own funds in the purchase of market securities like you have just described?

Mr. STONE. Well, the same answer I made to Senator Adams a few minutes ago: We felt that was not good policy and abandoned it.

Senator COUZENS. So this is a device to get around a bad policy, it seems to me.

Mr. STONE. No; it is a device not to get around a bad policy but to purchase for the best interests of the trust and to the greatest advantage to the trust, without profit to the trust company, the trust furnishing the capital for it and making no profit out of it.

Senator COUZENS. I understood that there was a fee provided in here.

Mr. STONE. No.

Mr. PECORA. Not provided for in there, but Mr. Stone has admitted that an investment fee of 1 percent was charged.

Mr. STONE. I have stated, not admitted.

Mr. PECORA. For investment in trust funds for securities in this trust-investment trust.

Mr. STONE. Where the law and agreement provided for it; not otherwise.

Senator COUZENS. If this was not set up for a profit and yet you used trust-company funds to operate this investment trust agreement or resolution, then what was the purpose of setting it up? Why couldn't the trust company have done it itself with its own funds? Because it used its own funds in that agreement or in that resolution.

Mr. STONE. Well, it was a provision to avoid the objection that had been made to the selling of the company's own investments in its own portfolio directly into the trust. That is, these were bought expressly for the trusts and for no other purpose.

Senator COUZENS. And the trust-company funds were used?

Mr. STONE. Yes. Yes. They furnished the working capital for it.

Mr. PECORA. Who had made the objections that you have just referred to, Mr. Stone, to the old practice?

Mr. STONE. I don't know that there were objections. It was a realization on our part that it was a good practice to abandon, and to purchase entirely on the outside.

Senator COUZENS. You continued the other practice for a great many years, didn't you, of buying on your own account and selling on your own account to your trusts?

Mr. STONE. Yes.

Senator COUZENS. What happened to make you change that policy? Because you had done it a great many years previous to that, hadn't you?

Mr. STONE. Yes.

Senator COUZENS. I think you did it all the years I was a member of the board, as I remember it.

Mr. STONE. Yes; that is true.

Senator COUZENS. I am trying to find out now what happened.

Mr. STONE. We did it for 30 years.

Senator COUZENS. I am trying to find out now what happened to make you enter into a device of this sort to avoid the criticism.

Mr. STONE. The realization of the fact that there was a collapse of business, the "depression", so-called, and the company would no longer be able to take the bonds back from the trusts at cost to the trusts. It was getting to be a burden which they apprehended that probably in the near future they might not be able to carry. But for upward of 30 years and for some time after the "depression", so-called, continued, they continued to buy them back from the trusts, so there were no losses to the trusts during that period of time.

Senator COUZENS. Now I am getting at what I wanted to get at. This, therefore, was a device so that you could tell your trusts that these were not purchased from you and therefore you could not take them back.

Mr. STONE. This trust-investment trust?

Senator COUZENS. Yes.

Mr. STONE. No; it was the furnishing of capital by the company expressly for the purpose, drafted by our attorneys as being perfectly legal and proper and in order.

Senator COUZENS. I am not questioning the propriety or legality of it.

Mr. STONE. In order to give us the benefit of wholesale prices and to make immediate investments as soon as they came in.

Senator COUZENS. But you could tell your trusts that you could not take back any defaulted or doubtful securities for the reason that they had not been purchased from you in the first place?

Mr. STONE. In the case of these?

Senator COUZENS. Yes.

Mr. STONE. Yes; there would not be any obligation then.

Senator COUZENS. Certainly; that is what I am trying to get at. Now, that, I believe, is the real purpose of this resolution. I can think of no other reason for it.

Mr. STONE. I am sorry I cannot agree with you, Senator. The real purpose was to serve our trusts to the best advantage.

Senator COUZENS. Yes; I am not questioning that part of it. But there was another very pertinent reason, and that was so that you could tell your trusts in case of default or bad investments that the securities had not been purchased from the Detroit Trust Co.

Mr. STONE. That was not even remotely in our mind.

Senator COUZENS. That is what happened, though, wasn't it?

Mr. STONE. No.

Senator COUZENS. It did enable you to tell them that, because it had not been purchased direct from the trust company?

Mr. STONE. Yes; it might enable us to tell them that, but we never did tell it to anybody.

Senator COUZENS. You are quite sure of that?

Mr. STONE. Yes.

Senator ADAMS. Did you without exception take back bonds sold into the trusts up until the time this change in policy was put into effect?

Mr. STONE. I cannot say, Senator, whether it extended to that time. Just the exact period we stopped doing that I could not say because it drifted along into—I think the last purchase was made in 1932 some time after our entire policy was changed. Whether we bought all of them during that period, I am quite sure we did not.

The CHAIRMAN. Under this arrangement you would buy securities for the benefit of the investor without regard to whether you had any trust funds to put in those securities?

Mr. STONE. Yes.

The CHAIRMAN. Accumulate them and sell them out?

Mr. STONE. That is correct. They were not ready for investment.

Senator COUZENS. Then you say, while this agreement does not state it, that you did charge 1 percent fee for an investment fee?

Mr. STONE. If the instrument permitted it.

Senator COUZENS. Yes.

Mr. STONE. And the law permitted it. We abandoned that shortly and went entirely to the practice of buying on the outside. This got very complicated to handle, a lot of bookkeeping in connection with it, and we thought we might just as well purchase on the outside.

Mr. PECORA. Mr. Stone, before I conclude this hearing, let me ask if you are familiar—and this bears upon the colloquy that took

place between you and Senator Adams earlier this afternoon—with the opinion rendered by the Supreme Court of the State of Michigan in an action entitled “Dollis S. Kelsey against Detroit Trust Co., Harry J. Fox, Patrick J. O'Brien”, the latter being joined and being an intervening defendant in his capacity as attorney general of the State of Michigan, in which opinion, which was filed on December 19, 1933, the court, among other things, said, as follows:

A trustee has no right to act when duty is opposed to interest, fiduciary to cupidity, honesty to desire for personal gain. To act as trustee for dead men carries with it the duty to exercise honesty, good faith, and active diligence, the duty to disclose the beneficiaries and account for the estate, and, stringent as the law is in prohibiting trustees acting in violation of their trusts, the rules of law should be more strict rather than be relaxed. A trustee has no right to act in the double capacity of broker or purchaser to sell alleged securities at a profit to trust estates of which it is trustee or to unload upon such trust estates worthless securities. These methods of plundering the estates of dead men cannot receive the approval and commendation of this court. Honesty, good faith, and reasonable diligence within the limits of the trustee's authority are adequate protection to such trustees. Nothing else may be substituted therefor.

Mr. STONE. Yes; I am familiar with that opinion. That statement is what you lawyers call *obiter dicti*.

Mr. PECORA. It is pretty sound in principle, isn't it?

Mr. STONE. Yes; absolutely.

Senator ADAMS. It is good law also?

Mr. STONE. Yes; absolutely. But it was not charged to the trust company; that is, that was not before the Supreme Court at all. The matter that went to the Supreme Court and which it decided, as I recall it, was a provision of the emergency banking act of Michigan, passed during the banking holiday, which provided that nobody could bring suit against the bank and trust company during the banking holiday without first getting the permission of the State banking commissioner. That is what was taken up to the Supreme Court, and, as I understand it, the Court sent it back to the Wayne County Circuit Court for trial; that the statements made in there by Judge Potter, I believe, were not in issue in the case before the Supreme Court—just comment that he made.

Mr. PECORA. Well, the action in which this decision was rendered or this opinion was handed down was an action in which the plaintiff sought, among other things, damages for breach of trust which it alleged in its bill of complaint.

Mr. STONE. Yes; and made all sorts of allegations. But they have never been tried out.

Mr. PECORA. The issues of fact have not yet been decided?

Mr. STONE. No; they have not been decided. There has not been even any testimony taken on them. I could tell you a little about it, but it is not material here, I suppose.

Mr. PECORA. I merely wanted to remind you of those very salutary principles the court referred to in that portion of its opinion that you called “*obiter dicti*.”

Mr. STONE. Yes. With which I agree.

The CHAIRMAN. The committee will recess until half past 10 tomorrow.

(Accordingly, at 5:05 p.m., the committee adjourned until 10:30 a.m. of the following morning.)

COMMITTEE EXHIBIT NO. 99, JANUARY 30, 1934.

COMMITTEE EXHIBIT NO. 17 FOR IDENTIFICATION JANUARY 25, 1934.

MAY 5, 1932.

Mr. WILSON W. MILLS,

Chairman of the Board, First Wayne National Bank

In order to obtain a better control over the transactions of the Bank, it is recommended that the following rules be carried out.

1. That all obligations, including all mortgage loans of our officers and employees, be concentrated in the Personnel Department and placed under the present loan plan except in so far as the interest rate is concerned;

2. That all commercial accounts of our officers and employees be concentrated in a ledger kept by the General Bookkeeping Department;

3. That an overdrawing of an account will be sufficient cause for immediate closing;

4. That commercial accounts of officers and employees will not be subject to service charges;

5. That all officers or employees who have authorities of any kind, jointly or otherwise, in connection with any accounts, are to submit a list of such accounts, with a full description regarding the authority, to the Auditing Department;

6. That no officer or employee shall carry on any business transactions with any of the customers of the bank;

7. That no officer or employee will put any transactions through any of the units for any other officer or employee or for himself, in any manner other than through the regular systems and methods that have been devised, without specific approval—all transactions, without exception, to be regularly recorded in the records normally provided;

8. That a record be established indicating all liabilities in connection with every loan account, direct and indirect, including those in the Mortgage Department. This is in a manner similar to that maintained by the First National Office in connection with the Fisher Branch;

9. That all loans referred by a Loaning Officer to any Senior Officer or Committee shall take into consideration the total liabilities, direct and indirect, including endorsements and paper discounted as well as mortgages or land contracts. This involves a record to be made available to the Loaning Officers;

10. That two or three Examiners devote their entire time to reviewing the loans with the officers, that every effort be made to consolidate the notes, and that all questionable items be referred to an independent officer for his decision as to their assignment;

11. That no collateral, real estate or securities, be bought in without the approval of either the Real Estate or Investment Committee. (Including foreclosures or mortgages.)

12. That a report be submitted to the Loan Groups by the operating end of the Loan Department, i.e., the Discount Cage, which report will go to all of the Loaning Officers and which will cover all loans. The Loaning Officers should not have access to the liability ledgers nor to the notes, and all loans should be reviewed by the entire group. This procedure involves considerable explanation, all of which has been covered in memorandums previously submitted and which we will be glad to review with you at your pleasure.

Respectfully,

COMMITTEE EXHIBIT NO. 100, JANUARY 30, 1934

COMMITTEE EXHIBIT NO. 42 FOR IDENTIFICATION JANUARY 25, 1934

MARCH 28, 1932.

Mr. JOHN BALLANTYNE,

President Detroit Banking Company.

The following is an unusually frank discussion of our organization. Please do not consider me presumptuous.

In an attempt to be brief, and because of your familiarity with the subject, a great many details and reasons in connection with the suggestions outlined herein have been omitted.

General.—It is to be noted that the chart submitted herewith contains no radical changes from our present structure. There are noted three additions, rather than changes, which it is believed are essential and for which the group is now ready.

It is, of course, true that a large number of details must be perfected. This will take time and the principal items involved are noted here.

The purpose of this memorandum, however, is to find a means whereby the officers may be informed of their responsibilities, this being considered necessary for the following reasons: A considerable group of senior officers who handled a large variety of functions in their old institutions do not appear to have any specific duties or responsibilities. These men are of such senior rank from the standpoint of their title that their activities either require almost constant meetings or else almost invariably result in embarrassment to the official staff as well as themselves.

Recommendation.—It is therefore respectfully recommended that the attached chart, with such changes as may appear advisable, be circulated among all of the officers of the group.

Joint Real Estate and Mortgage Committee.—Mr. James S. Holden, Chairman; Mr. L. K. Butler; Mr. Henry Sheldon; Mr. Fred J. Robinson; Mr. Wm. P. Holliday; Mr. George W. Drennan. This committee meets each Monday at 2:00 P.M., and at such other times as it may be necessary. The meetings are held in the Directors' Room on the eighth floor of the First National Bank Building. There has been appointed a standing Sub-committee of which Mr. Butler is chairman and which meets on call (generally once each week). Other committees are appointed from time to time as the occasion demands.

The minutes of the Sub-Committee are reviewed by the Senior Committee and the full responsibility therefor lies in the Senior Committee. The functions of this committee are to review and advise all of the units of the group upon all assets which depend either directly or indirectly on real estate for any part of their value.

A group of employees, under Mr. Rogers, supplies the committee with information, and various officers are regularly called into the meeting to present their questions.

This committee, considering that it is faced with a most involved and difficult question, is progressing rapidly with its problems.

Investment Committee.—Mark A. Wilson, Chairman; T. W. P. Livingstone; James A. Wilson; Edwin K. Hoover; Henry Hart; E. F. Connaly; Ernest K. Matlock; William J. Thomas; Oscar J. Buhr. This committee meets each Thursday at 3:30 P.M. in the Directors' Room on the eighth floor of the First National Bank Building.

The function of this committee is to review and advise all of the units of the group on their investment account.

A group of employees, under Mr. Connables, and known as the Statistical Department, supplies the committee with the necessary information.

To expend their activities to all assets, the value of which is predicated on securities other than Real Estate, will involve the appointment of a sub-committee. This is highly desirable for the following reasons: First, there are numerous corporations whose stock is used as collateral, etc., in various units, and to such an extent that if difficulties arise in connection with the company the losses will be passed to us. Second, numerous unlisted securities are used as collateral to loans and no facilities are provided the Loan Officers through which they can determine the actual value of the securities unless these involve Real Estate. Third, there are a few very heavy concentrations of collateral that should be under constant surveillance by the Investment Committee and upon which arbitrary values should be set.

As soon as these functions are assigned the operating departments will furnish all necessary information and bring to the attention of those involved, these and such other problems as may require attention.

Recommendation.—It is recommended that Mr. Lawrence K. Butler be appointed chairman of the sub-committee.

Special Loan Committee.—This is a new committee. Its need is evidenced by the fact that millions of dollars of charged off items have laid idle for months and years and that a large number of claims have been handled in a manner from which large additional losses have resulted. The volume of the items has grown to such proportions that it becomes necessary to have a very

large number of these handled by the Loaning Officer, and in order to prevent further losses the establishment of this committee is recommended.

Recommendation.—It is recommended that a Joint Special Loan Committee be appointed. That Mr. Mark A. Wilson be appointed as Chairman and that its personnel contain the following members: Lawrence N. Butler, Donald N. Sweeny, Guy G. Bratton, and such others as it may appear advisable to add. It is recommended that Dennis A. Darin act as Secretary to the Committee.

Functions.—Having determined that the various group heads are responsible for their loans, it shall be their duty to refer to this committee all loans handled by them, at least eight days before maturity, which are in any way doubtful. Through the Credit Department they will obtain full information regarding all liabilities, direct and indirect, found in any of the units of the Group and including the Trust Company, the Mortgage Department, and the Special Loan or Claims Department. This information, together with the recommendation of the group head, shall be submitted to the Joint Special Loan Committee who will determine the policy to be pursued. When the loan is secured, full information regarding the value of the collateral, to be obtained either from the Real Estate Committee or the Investment Committee, depending on the nature of the collateral, should accompany the information given the Special Loan Committee.

To summarize—the group head assumes the responsibility for all loans in his group except those which he refers to this committee. This places all the loans of a doubtful nature under the supervision of this committee and full information is on hand through which an intelligent opinion can be given or the method that will result in the greatest return to the Group.

Credit Department.—It is recommended that the Credit Departments be consolidated in the office of the First Wayne in the First National Bank Building (Third floor). The folders pertaining to loans handled at the Peoples Office, Wayne-Home Office, and Fisher Office, to be carried in those offices but an index placed in the file in the First National Office to indicate the existence of this information in those offices. It is recommended that there be attached to each Loan Group a senior representative of the Credit Department, through whom all information will funnel from and to the Credit Department and the various groups.

The functions of this department should be limited to the gathering of and disseminating of sound credit information, it being suggested that all public contacts be handled through the Loaning Officer or the Group Officer responsible for the account.

Salary Committee.—This Committee has been appointed and while they have had no meeting recently, it is assumed they will meet in the near future to review a number of items on which information has been requested by them, etc.

Joint Committee on Operations and Personnel.—Is functioning properly in so far as they themselves are concerned. Operating Bulletin No. 2, copy attached hereto, indicates how the responsibilities in the First Wayne National Bank have been distributed. Operating costs can be materially reduced as soon as the officers of the bank understand the functions of this committee.

Joint Committee on Insurance.—This committee is of old standing and functioning properly. It is recommended that Mr. Kenneth C. Thom be appointed Chairman of the Committee.

Joint Committee on Donations and Subscriptions.—No change recommended in this committee.

Joint Committee on Advertising Publicity, and New Business.—This new committee is recommended for various reasons. It is understood that those are well known. It is recommended that Mr. Julius C. Peter be appointed as Chairman to the Committee and that Mr. Howard F. Russ, Jr., A. V. Moninger, and Kenneth C. Thom, be among the personnel selected for this committee.

Auditing Department.—This Department is operating properly at this time. It should unquestionably be under the supervision of the Directors and report to the Senior Officer in the Group. Similarly, the Legal Department should be removed from the jurisdiction of all officers as these two departments, the former at all times and the latter at other times, together with the Comptroller

of the Company, are the Directors' only guarantee against the personal responsibility that accompanies their positions.

First National Company.—This Company is in the process of liquidation.

Detroit Company.—This Company acts as nominee for any of the units. It will take a considerable length of time to place the stock now in the names of others, under control. Stock has been transferred in the names of employees and their families, in a most negligent manner. In certain cases, Bank stocks or stocks that have been charged off, have been carried in this manner and it will take a considerable length of time before we know that we are receiving all of the income to which we are entitled and that we are not subject to the liability that normally accompanies the holding of Bank stock. The use of this company as nominee has resulted in stopping a very substantial leak.

First Detroit Company.—This Company should close its out of town office at once. It should further prepare itself to become a department of the bank, in being recommended that Mr. Henry Hart be in charge of the Department, with Mr. Murray as assistant.

First Wayne National Bank.—The Executive Committee meets more often than necessary under the above plan. It is believed the meetings could be arranged in a manner whereby two meeting a week would suffice.

At this point, it is in order to call attention to the suggestion that has been made from time to time in connection with the Loan Groups. A separate and independent group should be set up at once to handle the branch loans. It is further suggested that each group consist of the present official staff, together with a New Business representative and a senior representative of the Credit Department. Some specific individual within the group should be designated to handle the secured loans with improper margin. The purposes and reasons of this particular set-up have been outlined at length in separate memorandums.

The Building Company and Garage Company should operate as departments of the Bankers Company with Mr. Wesson Seyburn responsible for the public contacts. This building can be operated more profitably than at present, the service to the tenants must be improved and the building can be better rented. An effort should be made to dispose of the Garage.

The Peoples Wayne Realty Company should be liquidated.

The Detroit Trust Company and the *outlying metropolitan banks* are making sufficient progress in an orderly manner, to suggest that they be not disturbed.

The above, while lengthy, is only a synopsis. The writer feels that no discussion is necessary on a number of the items covered and suggests that he be permitted to submit the reasons, in detail, on such questions as will result in disagreements.

Respectfully,

JFV: IMcH

Comptroller.

EXHIBIT G-1.—COMMITTEE EXHIBIT No. 102, JANUARY 30, 1934

	1st Detroit Inv. No.	Amount	Bond	Unit cost to 1st Det. Co.	Unit cost to Det. Trust Co.
1	3052	5M.....	H. P. Trust Co. Ctf. 1930.....	98½	100.00
2	3054	1M.....	Chiloquin Lumbr. Co. 1st mtge.....	99	100.00
3	3053	7M.....	Hamtramck Lmbr Co. 1930.....	99	100.00
4	3050	6M.....	H. V. Mutter 1930.....	98	100.00
5	3046	5M.....	Realty investment, 1930.....	100	100.50
6	3047	2M.....	Tidewater Mill Co. 1930.....	99	100.00
7	3044	20M.....	W. J. Walker & R. H. Hovey 1930.....	99	100.00
8	3049	1M.....	Southfield Co. 1930.....	97	100.00
9	3055	4M.....	Capital Theater Bldg.....	95.3745	97.468
10	3043	25M.....	Kinzue Lmbr. Co.....	96	100.00
11	348	50M.....	Edw. Hines West. Pine.....	96.025	99.50
	7273	15M.....	Cleveland Heights, O.....	100.14	100.5212
	7266	7M.....	Winston-Salem, N.C. Twp.....	103.226	103.134
12	7053	1M.....	Det. & Sec. Tr. Co. Ctf. Ser. Z.....	97½	98.00
13	7051	2M.....	Det. & Sec. Tr. Co. Ctf. Ser. D-2.....	100.00	100.00
	7062	1M.....	Det. & Sec. Tr. Co. Ctf. Ser. B.....	100.00	100.00
14	6958	10M.....	Det. & Sec. Tr. Co. Ctf. Ser. D-2.....	100.00	100.00

EXHIBIT G-1.—COMMITTEE EXHIBIT No. 102, JANUARY 30, 1934—Continued

	1st De- troit Inv. No.	Amount	Bond	Unit cost to 1st Det. Co.	Unit cost to Det. Trust Co.
14	5514	8M.....	Northern Redwood Lmbr.....	98 $\frac{1}{2}$	97.50
15	5223	1M.....	Det. Trnst Ctf. Ser. H.....	99 $\frac{1}{2}$	100.00
16	4642	50M.....	Mead Corp. 1st mtge.....	93 $\frac{3}{8}$	97.00
17	5064	500.....	Davies Investment Co.....	98 $\frac{1}{2}$	99
18	5065	500.....	California Door.....	98 $\frac{1}{2}$	99
19	01412	1M.....	Det. Trust Ctf. Ser. G.....	99 $\frac{1}{2}$	100.00
20	00392	25M.....	S. S. Kresge.....	96.585	98 $\frac{1}{4}$
21	00391	3M.....	Rex B. Clark.....	95	99 $\frac{1}{2}$
	7324	10M.....	Sanitary Dist. Chicago, Ill.....	100.715	100.53
22	7460	100M.....	Rex Clark Coll. Gold Notes.....	95	99.50
23	09238	50M.....	M. J. Gallagher Gold Notes.....	97 $\frac{1}{4}$	99
24	07111	50M.....	Michigan State College.....	97	99 $\frac{1}{4}$
25	05605	10M.....	Det. Trust Ctf. Ser. J.....	99	99
26	04708	100M.....	Portland General Elec.....	93 $\frac{1}{2}$	93.625
27	12716	60M.....	Toledo Light & Power.....	98 $\frac{3}{8}$	99.375
28	11633	25M.....	Illinois Power & Light.....	93.50	95.25
29	11048	150M.....	S. S. Kresge.....	97 $\frac{3}{4}$	99.50
30	3051	10M.....	Kern Realty Corp.....	95	96.44
31	6661	160M.....	S. S. Kresge 1st mtge. 5s.....	96.1	97.50

I hereby verify the above unit costs, and other relative figures are as per the records of the First Detroit Company.

FELIX M. FARRELL.

Date: Jan. 9, 1934.

EXHIBIT G-2.—COMMITTEE EXHIBIT No. 103, JANUARY 30, 1934

Item No.	First Detroit Com- pany		Bond	Amount	Unit cost to trust client
	Invoice No.	Amount			
1	3052	5 M.....	H. P. Trust Company Ctf. 1930.....		100.0
2	3054	1 M.....	Chiloquin Lumber Co. 1st Mtge.....		100.0
3	3053	7 M.....	Hamtramck Lumber Co. 1930.....		100.0
4	3050	6 M.....	H. V. Mutter 1930.....	4 M.....	100.0
5	3046	5 M.....	Realty Investment, Inc., 1930.....	2 M.....	101.0
6	3047	2 M.....	Tidewater Mill Co. 1930.....	4 M.....	100.0
7	3044	17 M.....	W. J. Walker & R. H. Hovey 1930.....	1 M.....	100.5
8	3049	1 M.....	Southfield Co. 1930.....		100.0
9	3055	4 M.....	Capital Theater Bldg.....		97.5
10	3043	25 M.....	Kinzue Lumber Co.....		100.0
11	348	50 M.....	Edw. Hines Western Pine Co.....	18 M.....	100.0
12	7053	1 M.....	Detroit & Security Tr. Co. Ctf. Ser. Z.....	32 M.....	99.5
13	7051	2 M.....	Detroit & Security Tr. Co. Ctf. Ser. D-2.....		98.0
14	6958	10 M.....	Detroit & Security Tr. Co. Ctf. Ser. D-2.....	{ M.....	101.0
15	5223	1 M.....	Detroit Trust Ctf. Ser. H.....	{ M.....	101.0
16	4642	24 M.....	Mead Corp. 1st. Mtge.....	23 M.....	100.0
17	5064	500.....	Davies Investment Co.....	1 M.....	97.0
18	5065	500.....	California Door.....		95.0
19	01412	1 M.....	Detroit Trust Ctf. Ser. G.....		100.0
20	00392	25 M.....	S. S. Kresge.....		100.0
21	00391	3 M.....	Rex B. Clark.....		98.5
22	7460	100 M.....	Rex. Clark Coll. Gold Notes.....	2 M.....	100.0
23	09238	50 M.....	M. J. Gallagher Gold Notes.....	1 M.....	99.5
24	07111	50 M.....	Michigan State College.....	4 M.....	100.0
25	05605	2 M.....	Detroit Trust Ser. J.....	31 M.....	99.0
26	04708	100 M.....	Portland General Elec.....	19 M.....	100.0
27	12716	60 M.....	Toledo Light & Power.....	30 M.....	99.25
				20 M.....	100.0
				1 M.....	99.0
				1 M.....	100.0
				13 M.....	93 $\frac{3}{8}$
				87 M.....	99.50

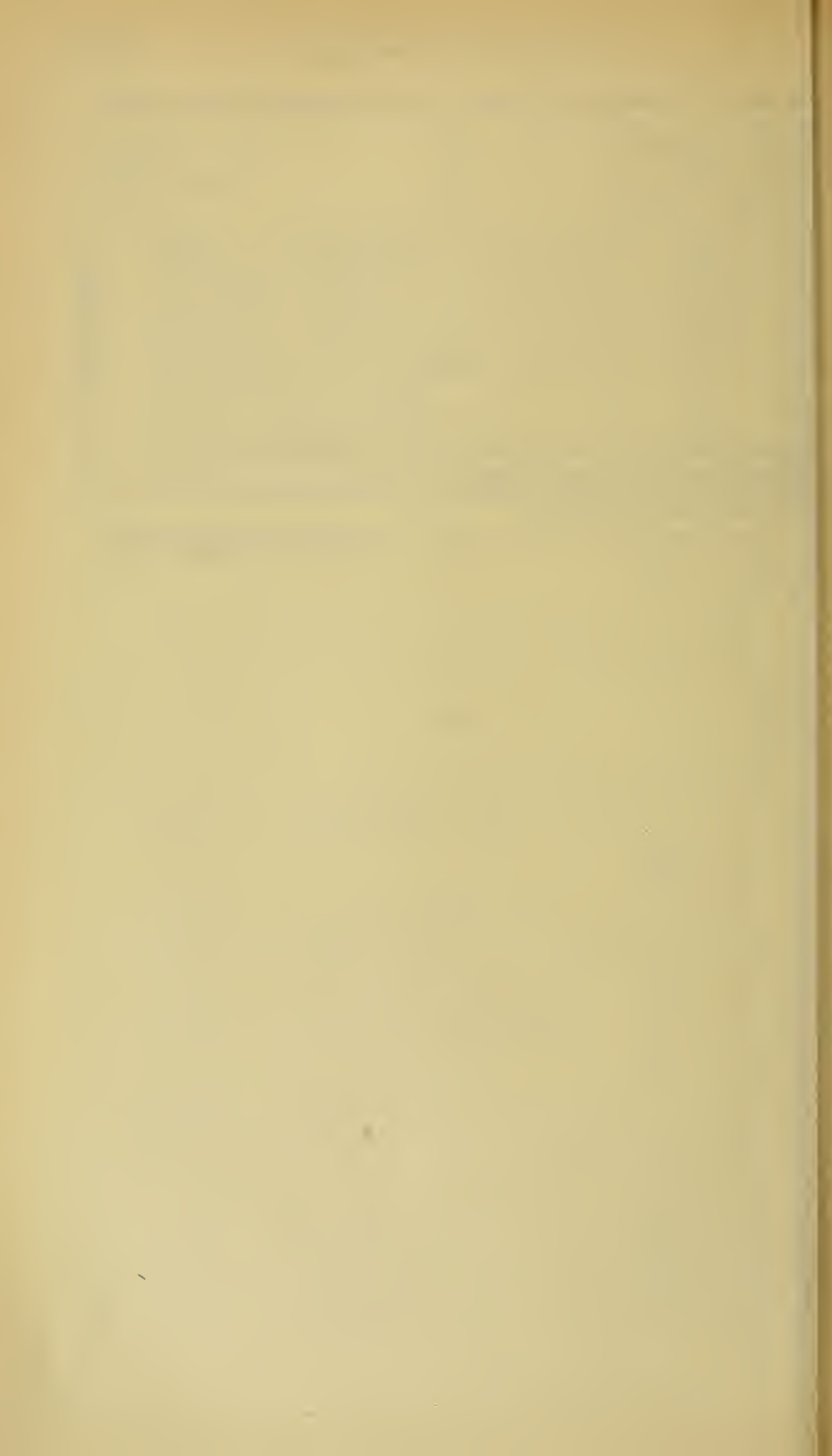
EXHIBIT G-2.—COMMITTEE EXHIBIT No. 103, JANUARY 30, 1934—Continued

Item No.	First Detroit Company		Bond	Amount	Unit cost to trust client
	Invoice No.	Amount			
23	11633	20 M.....	Ill. Power & Light.....	12 M.....	95.50
29	11048	150 M.....	S. S. Kresge.....	8 M.....	95.25
30	3051	10 M.....	Kern Realty Corp.....	47 M.....	99.50
31	6661	200 M.....	S. S. Kresge Co. 1st. Mtge.....	103 M.....	99.75
				31½ M.....	100.00
				500.....	97.50
				4½ M.....	97.55
				1½ M.....	97.75
				162 M.....	98.25
					98.50

I hereby verify the above unit costs and other relative figures are as per the records of the Detroit Trust Company.

The above unit cost does not include the usual fee allowed by state statutes for administering trust funds.

DETROIT TRUST COMPANY,
By H. C. VAN EVERY, Auditor.



STOCK-EXCHANGE PRACTICES

WEDNESDAY, JANUARY 31, 1934

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE
ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 10:30 a.m., pursuant to adjournment on yesterday, in room no. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman) and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee.

The CHAIRMAN. The subcommittee will come to order. I wish a notation made on the record that in view of Dr. Davis' certificate, the subcommittee will excuse Mr. Sweeny.

Now, Mr. Pecora, you may proceed.

Mr. PECORA. Mr. Stone will resume the stand.

TESTIMONY OF RALPH STONE, VICE CHAIRMAN OF THE DETROIT TRUST CO., DETROIT, MICH.—Resumed

Mr. PECORA. Mr. Stone, are you familiar with the issuance and sale by the Detroit Trust Co. for a period commencing about in January of 1927 and up to and including April of 1931, of participation certificates representing an interest in pooled mortgages.

Mr. STONE. I have had very little to do with that. I sat in on officers' conferences with respect to them from time to time, but I am not very familiar with those. Mr. Browning, our president, had jurisdiction of that and looked after it personally.

Mr. PECORA. Well, are you familiar with the initiation of that practice?

Mr. STONE. Yes, sir.

Mr. PECORA. Will you tell us about that, then?

Mr. STONE. Your record says it started in January of 1927?

Mr. PECORA. About that time.

Mr. STONE. There was a large demand for mortgages for investment purposes, and likewise a large demand for the borrowing of money secured by mortgages, and we felt that we could meet that demand by taking blocks of mortgages and putting them into units, depositing them with the Detroit Trust Co. as depository, and issuing certificates against them as such depository of an undivided interest in those mortgages.

Mr. PECORA. In what denominations were those certificates issued? I mean the participation certificates.

Mr. STONE. I think they were \$500 and \$1,000. There may have been smaller denominations but I do not recall.

Mr. PECORA. There was no guaranty accompanying those participation certificates of the payment of principal or interest by the Detroit Trust Co., was there?

Mr. STONE. None. The circulars offering them for sale expressly stated that there was no personal obligation on the part of the Trust Co.

Mr. PECORA. Do you know the extent to which those participating certificates were issued?

Mr. STONE. I believe up to 25 million dollars, and paid down I think to about 19 million dollars. That is my recollection but I am not positive.

Mr. PECORA. And how many of those certificates were purchased for the account of trust estates that the Detroit Trust Co. was administering?

Mr. STONE. I am afraid I cannot answer that.

Mr. PECORA. Did those participating certificates that were so issued and sold bear a flat rate of interest?

Mr. STONE. Yes, I think so.

Mr. PECORA. What was it?

Mr. STONE. In some cases 6 percent and in others 5½ percent.

Mr. PECORA. How did that rate of interest correspond to the interest charge as fixed in the mortgages that made up the pool with respect to which the participation certificates were sold?

Mr. STONE. I do not believe I know. I imagine they were, generally speaking, the same rate of interest as the mortgages in the obligations, or pools, as you call them. I am not sure about that. That would involve an examination of each of the mortgages making up each series.

Mr. PECORA. Do you know in how many series these certificates were issued?

Mr. STONE. No; I could not testify to that.

Mr. PECORA. Our information is that there were 35 series. Does that accord with your recollection?

Mr. STONE. I imagine, around that figure.

Mr. PECORA. Which officer of the Trust Co. had special charge of the issuance of these participation certificates?

Mr. STONE. They were administered in the trust department, and I do not really know what particular trust officer handled it.

Mr. PECORA. You said at the outset, when I started to question you about the issuance and sale of these participation certificates, that you had very little to do with them, and you referred me to Mr. Browning.

Mr. STONE. I say Mr. Browning, because he was the officer in charge of the administrative detail of the company.

Mr. PECORA. Mr. Thomas, are you more familiar with the details of these participation certificates than you believe Mr. Stone is?

Mr. THOMAS. I think perhaps I am; yes.

Mr. PECORA. I will examine you about them, then.

**TESTIMONY OF W. J. THOMAS, TREASURER DETROIT TRUST CO.,
GROSSE POINTE, MICH.**

(The witness was duly sworn by the chairman on yesterday.)

Mr. PECORA. You have heard the examination of Mr. Stone up to the present moment at this hearing, have you not?

Mr. THOMAS. Yes.

Mr. PECORA. I am resuming your examination at the point where I just left off with Mr. Stone, and that is with respect to the flotation of these certificates of participation by the Detroit Trust Co., including trust accounts. Can you tell us what proportion of these certificates were sold by the Trust Co. to itself as trustee for trust accounts?

Mr. THOMAS. I cannot say accurately, but my recollection would be about 20 percent, or, roughly, \$5,000,000.

Mr. PECORA. There have been supplied to us, Mr. Thomas, various statements which I will now show you and which are confirmed and verified and signed by Mr. Van Every, auditor of the Detroit Trust Co., under date of January 6, 1934. Those statements purport to show various facts with regard to the issuance of certificates of participation in these various series, 35 in number. Will you look at these statements, signed by Mr. Van Every, Mr. Thomas, and tell us if you can confirm their contents?

Mr. THOMAS. Of course, I cannot certify as to the figures, but I assume, because Mr. Van Every has signed them, that they are correct.

Mr. PECORA. I offer them in evidence, without their being spread on the record.

The CHAIRMAN. They may be admitted.

Senator COUZENS. To be marked as one exhibit?

Mr. PECORA. Yes, sir.

(A number of statements, verified by Mr. Van Every, auditor of the Detroit Trust Co., under date of Jan. 6, 1934, relating to issuance of certificates of participation by the Detroit Trust Co., were received in evidence and collectively marked "Committee Exhibit No. 105, Jan. 31, 1934.")

Mr. PECORA. The mortgage loans represented by these participation certificates or which underlie the participation certificates were mortgage loans made in the first instance by the Detroit Trust Co., were they not?

Mr. THOMAS. That is right.

Mr. PECORA. And in the making of these mortgage loans I presume the Trust Co. made the usual charges for its services by way of appraisals, and so forth, for loaning money?

Mr. THOMAS. Yes. They made a service fee or charge to the mortgagor when the mortgage was made.

Mr. PECORA. Was there any rate for such charges?

Mr. THOMAS. Any rate?

Mr. PECORA. Yes.

Mr. THOMAS. It was a fixed rate.

Mr. PECORA. What was it?

Mr. THOMAS. It varied from time to time, depending on the general rates charged by other institutions in the city, but I think you will find that the average rate is very close to 2 percent.

Mr. PECORA. What was the range of charge—between 2 and 3 percent?

Mr. THOMAS. I think that on some it was a little less than 2, but the average, I think you will find, is very close to 2 percent, possibly a little less.

Mr. PECORA. When the Trust Co. sold to itself as trustee of trust accounts any of these participating certificates, did the Trust Co. as trustee charge the trust estate with any investment fee, so called?

Mr. THOMAS. It may have charged the 1 percent investment fee if the agreement permitted it.

Mr. PECORA. Can you not give us the facts definitely as to whether or not it did charge the trust estate 1 percent investment fee under such circumstances?

Mr. THOMAS. I imagine it did. If you have anything to refresh my recollection with any specific cases, of course, I could tell definitely.

Mr. PECORA. Mr. Thomas, you as treasurer of the Trust Co. during that time ought to be able to tell us from memory if that was the policy of the Trust Co.

Mr. THOMAS. I think the policy was the same with respect to participation certificates as it was as to other types of bonds, except that the mortgages, of course, were made at par and put into the participation series at par and sold to the trusts at par; that is, the participations in those mortgages. On the trusts on which we were entitled to charge the 1-percent investment fee I naturally suppose it was charged; yes.

The CHAIRMAN. You got 2 percent from the mortgagor and a 1-percent investment fee?

Mr. THOMAS. Two percent for making the mortgage.

The CHAIRMAN. That was paid by the mortgagor, was it not?

Mr. THOMAS. That is right.

The CHAIRMAN. And 1 percent for handling the trust?

Mr. THOMAS. Yes, sir. That would just be on certain trusts, of course. In the court trusts there was no profit taken—no fee taken.

Mr. PECORA. In those cases where the Trust Co. as trustee purchased these participating certificates and charged, by virtue of the agreement that you have referred to, 1-percent investment fee to the cestui que trust, the Trust Co. as trustee also collected whatever other fees and commissions the statute entitled it to receive?

Mr. THOMAS. Yes, sir.

Mr. PECORA. According to the figures and statements represented on exhibit no. 105, offered in evidence this morning, the total amount of participating certificates purchased by the Detroit Trust Co. as trustee for trust accounts, from the Detroit Trust Co., was \$5,589,500 face value, out of the total issue aggregating about \$25,000,000. Does that conform to your recollection?

Mr. THOMAS. I would judge that is about right; yes.

Mr. PECORA. Do you know what disposition the Trust Co. made of the other participating certificates in these 35 issues aggregating \$25,000,000?

Mr. THOMAS. They were sold to the general public.

Mr. PECORA. At par?

Mr. THOMAS. I think perhaps some series were sold at par. There may have been some sold at prices ranging slightly under or over par, depending on the market. There was a very great demand for those certificates from the public during the years that they were issued.

The CHAIRMAN. What was the rate of interest?

Mr. THOMAS. On the mortgage-participation certificates I think $5\frac{1}{2}$ and 6; maybe some a little lower than that.

Mr. PECORA. As a matter of fact, was there not an arrangement by which the Trust Co. received all interest over and above the rate, at the rate of $5\frac{3}{4}$ percent?

Mr. THOMAS. What is that— $5\frac{3}{4}$ percent?

Mr. PECORA. Yes. Where the mortgage bore interest at the rate of more than $5\frac{3}{4}$ percent, the Trust Co. received for its services in connection with the issuance and sale of these participating certificates in those mortgages all interest over and above $5\frac{3}{4}$ percent paid by the original mortgagor?

Mr. THOMAS. No. I think you are confused there. I think what you are getting at is that any differential that there may have been between the rate of interest on the mortgages and on the participation certificates was considered to be a return to the Trust Co. of the cost of servicing the mortgages during their entire life.

Mr. PECORA. That was in addition to the commissions and fees it received for the servicing of the mortgage loans in the first instance, which you said was around 2 percent?

Mr. THOMAS. It was in addition to the fee received for the making of the mortgage; but this very small differential there did not anywhere near cover the actual cost of servicing those mortgages for 5 or possibly 10 years, taking care of all of the collections on those mortgages. There was no other fee charged.

Mr. PECORA. You charged an investment fee of 1 percent?

Mr. THOMAS. That was for making the investment in the trust. But I mean no other fee charged against these participation series for servicing all the mortgages.

Mr. PECORA. You say that investment fee was for making the investment. It was charged in those transactions where the Trust Co. as trustee purchased from itself the certificates which the Trust Co. itself had issued?

Mr. THOMAS. That is right.

Mr. PECORA. Do you know how many of these mortgage participating certificates are in default?

Mr. THOMAS. No; I do not.

Mr. PECORA. Have you no idea?

Mr. THOMAS. That is a very difficult thing to say, because, strictly speaking, they are not any of them in total default. We are paying on the mortgage participation certificates whatever we collected on the underlying mortgages.

Mr. PECORA. But are not those underlying mortgages, many of them, in default?

Mr. THOMAS. There are undoubtedly some; yes.

Mr. PECORA. To what amount?

Mr. THOMAS. I do not believe I have those figures.

Mr. PECORA. Those figures, as contained in exhibit no. 105, and which we have compiled, show that as of January 1 of this year the principal amount of mortgages in default was \$6,918,698.56, and defaults in payment of interest aggregating \$823,639.74 have also occurred up to January 1 of this year.

Mr. THOMAS. Is that on the mortgages or on the participation certificates?

Mr. PECORA. The participation certificates, so far as I can make out the form of Mr. Van Every's statements.

Mr. THOMAS. Of course that does not mean that that is the amount of mortgages in default.

Mr. PECORA. No. That is only with regard to participation certificates.

Mr. THOMAS. I have the information here on two or three series, if you wish it.

Mr. PECORA. Identify the series, and I will see if I can confirm them by an exhibit prepared by Mr. Van Every.

Mr. THOMAS. These memorandums are quite old. They show the amount of defaults in the mortgages at the end of 1931. Would you want that?

Mr. PECORA. No. Have you not got the figures down to date?

Mr. THOMAS. No; I have not.

Mr. PECORA. According to exhibit 105, consisting of Mr. Van Every's signed statements here, on January 1 of this year there were past-due certificates of the principal amount of \$8,176,700, and there was past-due interest on those certificates amounting to \$1,168,104.01. Does that conform to your general recollection?

Mr. THOMAS. I really do not recall. I assume that is right, if that is what Van Every gave you.

Mr. PECORA. Were any of these participating certificates sold to any trusts while any default had occurred in any of the mortgages underlying the certificates?

Mr. THOMAS. Not to my knowledge.

Mr. PECORA. Do you know A. J. Colvin, connected with the Trust Co.?

Mr. THOMAS. C-o-l-v-i-n?

Mr. PECORA. Yes; A. J. Colvin.

Mr. THOMAS. I think he is one of the boys in the mortgage department; yes.

Mr. PECORA. I want to show you another set of statements signed by Mr. Colvin, and others signed by Mr. Van Every, all certifying to certain facts with regard to the issuance of participating mortgage certificates of the kind we have been discussing and with respect to whether or not any mortgages in the series referred to in this exhibit were, at the time of sale, in default. Will you look at it and tell me if you have any reason to doubt the accuracy or authenticity of it?

Mr. THOMAS. I have no reason to doubt the correctness of those statements.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Set of statements signed by A. J. Colvin and by Mr. Van Every, certifying to certain facts with regard to the issuance of participat-

ing mortgage certificates, were received in evidence and collectively marked "Committee Exhibit No. 106, Jan. 31, 1934.")

Mr. PECORA. According to Exhibit No. 106, just received in evidence, out of six certain issues of these participating certificates having a face value of \$4,250,000, there were sold by the Detroit Trust Co. to itself as trustee for various trust accounts certificates aggregating a face value of \$1,508,900, and at the time of the making of those sales to trust accounts defaults had occurred in the payment of principal and interest in the underlying mortgages to a total figure of \$141,960.78.

Mr. THOMAS. Principal and interest?

Mr. PECORA. Both principal and interest; yes. Are you familiar with those facts?

Mr. THOMAS. No; but I assume that they are correct.

Mr. PECORA. How do you account for that having been done, now, Mr. Thomas? Here was the Trust Co. acting as trustee for various trust accounts, purchasing from itself as the issuer these participating certificates, charging the trust accounts an investment fee of 1 percent and purchasing those certificates at a time when, according to its own records, there had been defaults in payment of principal and interest in the mortgages underlying the certificates.

Mr. THOMAS. Well, I think you must remember that if you consider a mortgage in default, if the principal payment is not made on the day it is due, there always have been and always will be those defaults.

Mr. PECORA. Don't you consider that a default?

Mr. THOMAS. It is a temporary default; but you know as well as I do that the mortgagors do not always all pay their principal and interest payments on the due date. Is that interest the amount of interest that was not paid the day it was due on the mortgages?

Mr. PECORA. Those defaults, aggregating in amount \$141,960, were defaults in both principal and interest, and those defaults are estimated at the expiration of the usual periods of grace.

Mr. THOMAS. What would that be? After a 90-day period or a 60-day period?

Mr. PECORA. Whatever the mortgage provided for that would be fixed by the terms of the underlying mortgage.

Mr. THOMAS. Of course, it is hard to say how serious it was without knowing exactly the facts with respect to the mortgages at that time. I am sure that the Trust Co., as soon as they were cognizant of the fact that a considerable number of mortgages were going into default, would immediately refrain from placing any more of those participation certificates in trusts.

Mr. PECORA. Well, apparently, according to the exhibit last offered in evidence, they sold to trust accounts managed by themselves one million five hundred thousand and odd dollars of these participation certificates at a time when defaults had previously occurred in the payment of both principal and interest on the underlying mortgages. Surely the Trust Co., as the issuer of those certificates, would have a complete record of those defaults if any had occurred, would it not?

Mr. THOMAS. Yes.

Mr. PECORA. And it had all the information and data that it would need in order to enable it to determine whether or not it was selling participating certificates in those mortgage pools that included mortgages that were in default, had it not?

Mr. THOMAS. Yes; they would have that information.

Mr. PECORA. The facts with regard to the sale of these participating certificates to trust accounts after defaults had occurred in some of the underlying mortgages have been set forth in an exhibit prepared by the auditor of the Trust Co., Mr. Van Every, in exhibit 106, which is in evidence. How do you account for those things having occurred?

Mr. THOMAS. Well, I think that probably about that time when mortgages generally began to default in substantial amounts, the Trust Co. did make an investigation, or members of the mortgage department did, and I think the policy was discontinued. There may have been a few sales go through during that interim.

Mr. PECORA. A few sales, when the amount shown is \$1,508,900 sold to trust accounts alone?

Mr. THOMAS. What was the date of those sales; do you know?

Mr. PECORA. Various dates. They all appear in Exhibit No. 106. For instance, let us take the third page of Exhibit 106, signed by both Mr. Colvin and Mr. Van Every. Mr. Colvin, I understand, is attached to the mortgage department of the Trust Co. It says [reading]:

In series F-2 trust participation no. 11,231, the mortgages were delinquent as follows: On October 17, 1931, principal, \$19,926.45; interest, \$5,620.43.

And then, over Mr. Van Every's signature, is the following statement [reading]:

The above date, October 17, 1931, was approximately the date of the last sale of certificates of this issue to trusts. The total par value of certificates of this issue sold to trusts amounted to \$185,700 out of a total issue of \$1,000,000. The amount of commission or service charges collected from the mortgagors at the time the mortgages were made, at the rate of 2 percent, and 3 percent outside the city, was \$20,000.

So that as far back as October 1931 according to these records compiled by representatives and employees and officers of the Trust Co., sales of participating certificates were made by the Trust Co. to itself as trustee to trust accounts at a time when underlying mortgages represented by the certificates were in default both as to principal and interest.

We find a similar situation existing on March 2, 1932, according to Exhibit No. 106. Suppose you study that exhibit, Mr. Thomas, for your present purposes.

Mr. THOMAS. That is a very small percentage of defaults, Mr. Pecora, as to the principal of the mortgage in each series compared with the total of the mortgages.

Mr. PECORA. Whether it is small or large, Mr. Thomas, the practice itself is one which should not have been permitted to occur in any one instance, is it?

Mr. THOMAS. Yes; you are right. I do not think that if the trust investment department had knowledge of these mortgages being in default they would have put them in the trust. I agree with you that they should not have.

Mr. PECORA. The trust department should have had knowledge. All the material and all the data giving such knowledge and information were in the Trust Co.?

Mr. THOMAS. The mortgage department. Possibly they had not made an examination of these various mortgages behind the series and had not conveyed the information to the trust investment department at this time. I do not know as to that.

Mr. PECORA. There is now no market value for any of these participating certificates, is there?

Mr. THOMAS. There is very little market. I guess there are a few traded in.

Mr. PECORA. According to Mr. Van Every's statement embodied in exhibit no. 105, there is no market with regard to all of the 35 series of participating certificates issued.

Mr. THOMAS. I think he means there is no general market, which is true.

Mr. PECORA. In every instance, in answer to the question "Present market value of certificates" his comment is, "No market." That covers all 35 series.

Mr. THOMAS. Of course, we have hopes and expectations that those mortgage-participation certificates will work out very well. If we are able to get the assistance that we hope to from the Home Loan Corporation we feel that the ultimate work-out of these participation certificates will be very favorable; at least, as well as the average.

The CHAIRMAN. Are you accepting, where you have mortgages, the bonds of the Home Loan Corporation?

Mr. THOMAS. We have not yet. We are considering that with respect to all of our mortgages, Mr. Chairman.

Mr. PECORA. Mr. Thomas, a statement has been prepared based upon an analysis of the data embodied in Exhibit No. 105 purporting to show, with regard to the 35 series of mortgage-participation certificates issued by the Trust Co. for the aggregate amount of \$25,000,000. that, as already indicated, the amount sold to trusts administered by the Trust Co. was \$5,589,500; that as of January 1 of this year the amount in default of those certificates as to principal was \$6,918,698.56, and as to interest, \$823,639.74; that the amount of commission or service charge made and collected by the Trust Co. in connection with the making of the mortgage loans underlying these certificates for all these 35 series aggregated \$526,575.62; that as of January 1, 1934, the principal amount of certificates past due was \$8,176,700, and the amount of interest on these certificates past due on that date was \$1,168,104.01.

Will you look at this statement that has been so prepared and based upon that exhibit and see if you have any critical comments to make about it? For that purpose you may also compare it with the underlying and supporting data consisting of exhibit no. 105.

Mr. THOMAS. I believe the record is incorrect in respect to the first part of your statement.

Mr. PECORA. What is that?

Mr. THOMAS. You started out by referring to the \$5,000,000, approximately, in trusts.

Mr. PECORA. Sold to trust accounts.

Mr. THOMAS. But you said in respect to those that there is over \$6,000,000 in default.

Mr. PECORA. No; I meant the aggregate amount of the issue.

Mr. THOMAS. I was afraid the record would read in respect to the 5½ million that there was over 6 million in default.

Mr. PECORA. Thank you for the correction. No; the default was with respect to \$25,000,000 of such certificates issued.

Mr. THOMAS. As far as I can tell, that seems to be correct.

Mr. PECORA. I offer it in evidence as a compilation in a very convenient form.

The CHAIRMAN. Let it be admitted.

(Tabulation headed "Detroit Trust Co., Certificates of Participation as of Jan. 1, 1934", was received in evidence, marked "Committee Exhibit No. 107, Jan. 31, 1934", and will be found at the end of this record.)

Mr. PECORA. Now, Mr. Stone, I want to ask you about the declaration of that special dividend on or about December 1, 1931, by the Detroit Trust Co., which was paid in the form of the 30,000 shares of the capital stock of the First Detroit Co., which the Detroit Trust Co. at that time owned. You recall the declaration of that special dividend, don't you?

Mr. STONE. Yes.

Mr. PECORA. You as chairman of the board at that time participated in the discussion at the meeting of the board of directors at which that dividend was declared?

Mr. STONE. Yes, sir; I believe I presided at the meeting.

Mr. PECORA. Now, will you give the committee the facts and circumstances involving that declaration of special dividend?

Mr. STONE. The recommendation that the dividend be made came from the directors of the Detroit Bankers Co. Mr. John Ballantyne, president of the Detroit Bankers Co., was present at the meeting and read a statement with respect to the consolidation of the Peoples Wayne County Bank and the First National Bank. At the end of that statement he said that the directors of the Detroit Bankers recommended the declaring of this dividend.

Mr. Browning then, I believe, offered the resolution for the declaration of the dividend and explained the purpose for which the dividend was to be declared.

Mr. PECORA. What was that purpose?

Mr. STONE. I will state it in a general way. I haven't the exact language of the minutes. The proceeds of the dividend, in other words, the assets which would go with the declaration of the stock of the First Detroit Co., were to be used to retire indebtedness of the First National Co. which it had incurred. I think perhaps to get the background of that it might be necessary to go back to the time prior to the organization of the Detroit Bankers Co.

Mr. PECORA. All right; will you do that?

Mr. STONE. I should say about some time the latter part of August or early in September, when the principal officers of the four banks and the Trust Co. which were contemplating organization into the Detroit Bankers Co. held meetings, it appeared that the First National Co. had been making purchases of outstate bank stocks for the First National Co. account, and it was stated at one of those meetings,

one of those early meetings, that the amount, I don't recall exactly, but I think it was three million to three and one half million. Subsequent to that letters went out, I think in October, to the stockholders of the four banks and the Trust Co.

Mr. PECORA. Those are the five original banking units of the Detroit Bankers Co.?

Mr. STONE. Yes—describing the terms for the exchange of stock and the formation of the Detroit Bankers Co.

Mr. PECORA. That is the circular letter that was put in evidence here last week?

Mr. STONE. I believe so.

Mr. PECORA. Dated October 5, 1929?

Mr. STONE. Yes; that is correct. Then, I think in November sometime, about the middle of November, at a meeting of the organization committee report was made that these purchases of outstate bank stocks amounted to the sum of about \$7,200,000.

I should go back and say that at the early meetings to which I referred the opinion was generally expressed that no more of these State bank stocks should be purchased. It was not the intention of the organizers to purchase—I mean when they came together as a group—outstate bank stocks. Their intention was to limit their ownership of the national institutions to Detroit and the metropolitan district. But the First National Co. had started on it and those in charge of it were requested to discontinue those purchases. Then, in November, about the middle of November, when the meeting to which I have referred was held of the organization committee—

Mr. PECORA (interposing). That is November 1929?

Mr. STONE. 1929; yes. It was reported that the amount had reached, for the purchase of these stocks, about \$7,200,000, and, of course, I am frank to say that most of us were surprised that the purchases had been continued. But upon inquiry of the First National Co. the statement was made by them that they had made commitments which in honor bound they felt they should carry through, and that resulted in the purchases to this extent.

The CHAIRMAN. Were those purchases made in cash?

Mr. STONE. I assume so; but I had no knowledge of that. The stocks were pledged to banks, I think, in New York. It seems to me the Guaranty Trust. Whether any others or not I do not know. And they were accepted as collateral, I believe, for the full amount of the loan and in November, I imagine, were in the hands of those banks.

The letters having gone to the stockholders of the five institutions to form the Bankers Co., and I do not know as a fact now, but I imagine it would be found that the minimum was 66⅔ percent in the case of each institution, consents to the exchange of the stock had come in, so that the organization of the Bankers Co. was an assured fact.

Mr. PECORA. That is because more than 66⅔ percent of the stockholders of the five original unit banks to which that circular letter was addressed had deposited their stock, indicating their willingness to exchange their stock in those five unit banks for the capital stock of the Detroit Bankers Co.?

Mr. STONE. That is correct; at the time of which I spoke—the middle of November.

Mr. PECORA. Yes.

Mr. STONE. Then the Group organization committee realized it had this obligation of the First National Co. on its hands to take care of in some way. I don't remember any specific discussion, but I think the belief was that that problem was of a size which should not prevent the organization of the holding company. I think at that time the total capitalization was around 90 million dollars, and that would mean—

Mr. PECORA (interposing). Of what, the five original unit banks?

Mr. STONE. Yes; I think so. I am giving this from recollection.

So that this seven million two was in the neighborhood of about 8 percent of the total capital. The footings of the five institutions, I think it was testified to last week, were \$725,000. So that this item of seven million two was about 1 percent of the footings.

Mr. PECORA. By the "footings" you mean the total resources?

Mr. STONE. Total resources; yes.

Mr. PECORA. Of the five original banks that were to be acquired by the Detroit Bankers Co.?

Mr. STONE. That is right.

Senator COUZENS. The First National Co. was an affiliate of the First National Bank?

Mr. STONE. I believe the First National Co. was under some sort of an endorsement on stock certificate owned by the stockholders of the First National Bank.

Senator COUZENS. Yes; in substance they were an affiliate of the First National Bank?

Mr. STONE. Yes; that would be a proper term to apply to it, I imagine.

Senator COUZENS. Who was president of the First National Bank when this First National Co. was organized?

Mr. STONE. To the best of my recollection, Dwight D. Douglas.

Senator COUZENS. Before the organization of the First National Co., wasn't there some form devised to purchase up these out-State bank stocks through the formation of prestige agreements that were afterward taken over by the First National Co.?

Mr. STONE. Not to my knowledge. I would not be aware of it.

Might I follow on, connecting this with the action of the Detroit Trust Co.?

Mr. PECORA. Yes.

Mr. STONE. So the Group found that it had this 7,200,000 obligation to take care of, and I think testimony has already been produced here to show that moneys were borrowed by the Detroit Bankers Co. by various unit members of it for the purpose of reducing the loans in New York.

Mr. PECORA. Loans which had been incurred to enable the First National Co. in the first instance to acquire the stock of these various out-State banks to an aggregate amount of \$7,200,000—those are the loans you referred to?

Mr. STONE. I think that is a correct statement; yes.

The CHAIRMAN. Were the dividends declared to take up that debt?

Mr. STONE. Yes. That is what I was coming to, but I was trying to stretch the progress of the thing.

The CHAIRMAN. Yes; all right.

Mr. STONE. To show why the directors of the Detroit Trust Co. came to the decision to declare the dividends.

The obligation, as I say, was one of the Group, and the statement which Mr. Ballantyne made to our board showed that on the consolidation of the two banks——

Mr. PECORA (interposing). That is the First National and the Peoples Wayne County?

Mr. STONE. First National and Peoples Wayne. The capitalization fixed, as I recall, after advising with the national-bank examiners, at 25 million capital, 25 million surplus, and 7 million profits. There had been a reduction in the capitalization of that company and charging off losses to which Mr. Ballantyne referred in his statement.

That left the bank in position where it could not take out of its capitalization whatever amount might be needed to retire this obligation.

Mr. PECORA. The obligation was the obligation of the Detroit Bankers Co.?

Mr. STONE. It had become so.

Mr. PECORA. Practically, in February 1930, it became the obligation of the Detroit Bankers Co.?

Mr. STONE. In substance; yes. At any rate, they so regarded it. I don't know whether it was legally so. They regarded it, I imagine, for the reason that if they had not paid it, the names were quite similar—First National Co., First National Bank—and it would be necessary for the banks in New York to enforce the obligation by suit or foreclosure of pledge; that might have alarmed the depositors of the First National Bank and the Peoples Wayne County Bank to such an extent as to cause runs, and in addition to that it would have probably destroyed the credit of the banks at New York and elsewhere. So that they were in a position where it was necessary for them, whether legally obliged or not, to protect and take care of that loan.

So it became a group matter. And the First National Bank capital structure at reorganization not being in position to provide the funds to retire this obligation of \$7,200,000 altogether—they may have been able to contribute to it—the Detroit Bankers Co. made the recommendation to the directors of the Detroit Trust Co. that it declare this dividend. There was an additional advantage in that it divorced or separated the investment business from the Trust Co. business, which was considered a desirable thing to do. That was the trend of times. It was under discussion very considerably then.

I think that explains why the directors of the Detroit Trust Co. declared the dividends. They had faith in the judgment of the directors of the Detroit Bankers Co. and acted partly upon their recommendation and partly upon the exercise of their own judgment in the matter.

Senator COUZENS. How many directors of the Detroit Trust Co. were also directors of the Detroit Bankers Co.?

Mr. STONE. I could not tell that, Senator, without having the comparison, but there were——

Senator COUZENS (after a pause). While they are looking that up, when did the change take place between the 12 directors of the Detroit Bankers Co. so that they became a larger group?

Mr. STONE. That is, 9 others added to it, making 21?

Senator COUZENS. Yes.

Mr. STONE (addressing Mr. Thomas). Have you that?

Mr. THOMAS. No; I have not.

Mr. STONE. I should say within 1 year after the organization of the Detroit Bankers Co., but that is just recollection.

Senator COUZENS. Do you know why that was done?

Mr. STONE. Yes; I think that the members of the board of directors of the bank—

Senator COUZENS (interposing). First National Bank?

Mr. STONE. Yes; the First National Bank—and the Peoples Wayne County, in which the directors of the banks, some of them, were very large stockholders in the Detroit Bankers Co. by exchange of their stock, felt that the future policies and the operation of the holding company should not be directed entirely by the 12 members of the Detroit Bankers board, who were the senior officers of the constituent units of the Bankers Co. They felt that they should participate in the future planning and operation of the Detroit Bankers Co.

Senator COUZENS. How did they dissolve their trust agreement that they had and set up the 12 men? How did that happen? How did they go about that?

Mr. STONE. Well, it was handled by the attorneys. I don't know just what the process was.

The CHAIRMAN. But this dividend did not go to stockholders at all?

Mr. STONE. No; this dividend went to the Detroit Bankers Co.

Senator COUZENS. They were the stockholders, though, weren't they? Weren't the Detroit Bankers Co. the stockholders?

Mr. STONE. Yes. Yes; that is true, the holding company.

Mr. PECORA. Senator Couzens, I have checked up in the annual report to the stockholders of the Detroit Bankers Co. for the year 1931 the facts in regard to the question you asked Mr. Stone as to how many directors of the Detroit Trust Co. were also at that time directors of the Detroit Bankers Co., that is, at the time of the declaration of this special dividend, in December 1931, and I find that 12 of the 21 directors at that time of the Detroit Bankers Co. were also directors of the Detroit Trust Co., and those 12 were as follows: John Ballantyne, William T. Barbour, McPherson Browning, Herbert L. Chittenden, Emory W. Clark, D. Dwight Douglas, James S. Holden, Truman H. Newberry, Fred. J. Robinson, Wesson Seyburn, E. D. Stayer, and Ralph Stone.

Mr. STONE. Were they all directors of the Detroit Bankers Co. at that time?

Mr. PECORA. I will check that up. These 12 that I have named were at that time, according to the 1931 report, directors of the Detroit Bankers Co. They were also at the same time directors of the Detroit Trust Co.

Mr. STONE. I guess that is right, because that was after the 9 new members to which the Senator referred were added. That was 12 out of how many members of the board of directors of the Detroit Trust Co.?

Mr. PECORA (after counting). Fifty-six directors' names are listed constituting the board of directors of the Detroit Trust Co. in this annual report.

Mr. STONE. Twelve out of 56.

Mr. PECORA. That answers your question?

Senator COUZENS. Yes.

Mr. PECORA. Now, at that time what was the value of the 30,000 shares of the capital stock of the First Detroit Co. which was paid in the form of this special dividend?

Mr. STONE. I think there was 3 million capital and 1 million surplus, or \$4,000,000. Is that correct?

Mr. PECORA. It was carried on the books at \$4,000,000?

Mr. STONE. Yes.

Mr. PECORA. Shortly after the declaration and payment of that special dividend in the form of this stock you recall that 20,000 shares of it was surrendered by the Detroit Bankers Co. for cancelation, and upon cancelation the Detroit Bankers Co. received \$2,000,000 in cash.

Mr. STONE. You mean after they had acquired it, it was surrendered to the First National Co., liquidating dividend?

Mr. PECORA. First Detroit Co.

Mr. STONE. I mean the First Detroit Co.

Mr. PECORA. Yes.

Mr. STONE. That was the liquidating dividend to which we referred last week.

Mr. PECORA. And that \$2,000,000 was then used by the Detroit Bankers Co. to pay off or to help pay off or reduce a loan which it was then carrying at the Chase National Bank in New York?

Mr. STONE. I haven't personal knowledge of that, but I have no doubt that is a fact, because that was the purpose for which the dividend was declared.

Mr. PECORA. According to your explanation of the purpose for which this special dividend was declared, it was declared to help the Detroit Bankers Co. meet its obligations, which rested upon the original obligation of \$7,200,000 incurred by the First National Bank prior to the actual incorporation of the Detroit Bankers Co.?

Mr. STONE. That is correct.

Mr. PECORA. And by that process the sum of \$2,000,000 which was included among the assets of the Detroit Trust Co. was taken out of reach of depositors and general creditors of the Detroit Trust Co., was it not?

Mr. STONE. Well, having declared that dividend, naturally that would be true; yes.

Mr. PECORA. Now, you are an old banking officer and trust company official, Mr. Stone. Did you think that was fair to the officers?

Mr. STONE. Oh, yes.

Mr. PECORA. Why?

Mr. STONE. Well, there was abundant capitalization left to have protected the depositors. That was considered at the meeting. As I recall at the time, the company had capital, surplus, undivided profits and reserves of approximately 14 million or 14 million and a half dollars. Taking out the 4 million left a capitalization of about 10 million dollars as a protection to about 47 million dollars of depositors. That is at the ratio of about 1 of capitalization to 4.7 of deposits, which I think is far above the usual ratio of banks.

Mr. PECORA. Bear in mind that at that time, in December 1931, banking conditions, instead of improving, had been getting worse, had they not, for some time?

Mr. STONE. I think they were worse than prior to the stock exchange collapse.

Mr. PECORA. But they had been gradually getting worse since the end of 1929, had they not?

Mr. STONE. Oh, yes. But I don't believe there was a realization on the part of the directors that the depression was likely to increase to such an extent as to materially reduce the value of their capitalization.

Mr. PECORA. Had there been a general policy suggested by the Comptroller of the Currency at that time to national banks throughout the country to conserve their resources through abatement of dividend declarations or reduction or even omission of dividend declarations?

Mr. STONE. I really don't know.

Mr. PECORA. Don't you recall that that was the policy at that time that was enjoined upon the banks?

Mr. STONE. I would not question that he made such pronouncements, but I do not recall them. We were under the State system, but, of course, that would not mean that we would not at least know what the general discussion was.

Mr. PECORA. That is why I asked. I realize yours was a State institution, operating under the laws of the State of Michigan, but at the same time such a policy recommended to national banks by the Comptroller of the Currency would be a reflection of banking conditions existing at that time, would it not?

Mr. STONE. Yes; I suppose so.

Mr. PECORA. Equally applicable to State banks?

Mr. STONE. Yes; I should think so. The point I am making is there are no communications to us from the Comptroller with respect to the Trust Co.

Mr. PECORA. But you knew the situation. You were a director of the Detroit Bankers Co., which owned national banks among its units at that time?

Mr. STONE. Yes; that is true.

Mr. PECORA. Mr. Stone, let me ask you, what was the policy of the Detroit Trust Co. with respect to the segregation of its fiduciary funds from its general funds prior to 1932?

Mr. STONE. The Trust Co. deposited its trust balances, as we call them, the trust cash fund, in its banking department or its financial department, and from there into the banks in which the company carried its own balances.

Mr. PECORA. Yes; and what were those banks principally?

Mr. STONE. They were the First National Bank of Detroit. I believe we had some Peoples Wayne County Bank; Detroit Savings Bank, Bankers Trust Co. of New York, New York Trust Co., Continental Commercial National Bank of Chicago—various banks through the State. I think we had some deposits carried on the balance sheet as other banks. I do not know whether I have missed any or not, but I think that is substantially correct.

Senator COUZENS. Were the original deposits and your trust balances kept together?

Mr. STONE. Yes.

Mr. PECORA. The trust deposits were not earmarked?

Mr. STONE. No; except on the trust books of the company. That is, the trust ledger would show the amount of cash to the credit of each individual trust.

Mr. PECORA. Now, I have here what purports to be a report or statement signed by Mr. Van Every, auditor of the Detroit Trust Co., under date of December 20, 1933. Will you look at it and tell me first if you recognize Mr. Van Every's signature?

Mr. STONE. Yes; that is correct.

Mr. PECORA. Now will you look at the report itself and tell me if the matters specified therein are within your knowledge or accord with your recollection of the facts?

Mr. STONE. I think that is a substantially correct statement.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Report or statement dated Dec. 20, 1933, signed by F. C. Van Every, was thereupon designated "Committee Exhibit No. 108, Jan. 31, 1934", and appears in the record immediately following where read by Mr. Pecora.)

Mr. PECORA. The exhibit reads as follows. It is dated December 20, 1933 [reading]:

As of March 25, 1931, and prior to that time the Detroit Trust Co. did not earmark in any specific bank account the cash balances in fiduciary trust accounts. On August 8, 1931, the Detroit Trust Co. opened the following bank accounts for the purpose of setting aside deposits equal to the cash balances in fiduciary trust accounts, for which the Detroit Trust Co. issued certificates of deposit:

Peoples Wayne County Bank "Fiduciary Account"-----	\$4, 500, 000
First National Bank, Detroit-----Do-----	1, 700, 000
Detroit Savings Bank-----Do-----	500, 000

6, 700, 000

It is not possible to state, as of August 8th, 1931, that the above total was sufficient to cover Fiduciary Trust balances, because it was necessary to analyze trust agreements in order to determine the accounts which were to fall into the Fiduciary classification. It was later determined that the amount was more than ample.

From August 8th, until October 1st, 1931, the above bank accounts were carried on the general books in memorandum only. On October 1st, 1931, at the request of the Michigan State Banking Department the accounts were set up on the General Statement of Condition.

On January 5th, 1932 the fiduciary bank deposits were brought into balance with the cash balance as shown in the fiduciary trust accounts, and kept in balance thereafter.

Detroit Trust Company, by H. C. Van Every, Auditor.

Now, Mr. Stone, in committee's exhibit no. 108 which I have just read there is a statement embodied reading as follow:

From August 8 until October 1, 1931 the above bank accounts were carried on the general books in memorandum only. On October 1, 1931 at the request of the Michigan State Banking Department the accounts were set up on the general statement of condition.

In view of that I want to show you what purports to be a photo-static reproduction of a letter addressed to the Detroit Trust Co. under date of September 18, 1931, bearing the signature "R. A.

Carroll, examiner." Will you look at it and tell me if you recognize it to be a true and correct copy of a letter addressed to the Detroit Trust Co. from the State examiner named Carroll on or about the date which that bears?

Mr. STONE (after perusing document). I assume that it is; yes.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Letter dated Sept. 18, 1931, from R. A. Carroll, examiner, to Detroit Trust Co., was thereupon designated "Committee Exhibit No. 109, Jan. 31, 1934", and appears in the record immediately following, where read by Mr. Pecora.)

Mr. PECORA. The exhibit marked "Committee's Exhibit No. 109 in Evidence" reads as follows [reading]:

SEPTEMBER 18, 1931.

DETROIT TRUST COMPANY,
Detroit, Michigan.

GENTLEMEN: This letter refers to the recent examination of your bank as at the close of business August 31, 1931. The following matters were discussed with Pres. Browning, Vice-Pres. Butler, and Treas. Thomas, and will require your further attention.

1. *Loans & discounts.*—Classification of your loans is made a part of this report and shows the following classifications.

Under-margined loans (16.9%)	\$1,646,170.19
Slow (5.3%)	513,097.10
Doubtful (1.5%)	142,183.33
Loss (2.7%)	258,011.54

Loans secured by Detroit Bankers Co. stock total \$1,640,544.86, which with the loan to the Detroit Bankers Co. comprise 31.5% of your total loans & discounts.

This Department recommends that in the future no additional loans be extended which are predicated upon Detroit Bankers Co. stock and that your present loans be gradually eliminated whenever possible.

2. *Real estate.*—Carrying value of \$2,322,499.81 with the following losses set-up:

Losses not including Int. & Advances	\$343,954.65
Interest additions	73,799.68
Advances to operations of properties	57,369.68
Total losses set-up	474,224.01

Due to these losses and the fact that you have 503 mtges under foreclosure totalling \$2,738,251.20 which is classed as potential real estate we believe a Reserve for losses in real estate of at least \$500,000 should be set-up at this time, & same increased periodically until a more favorable outlook appears in the real estate situation.

3. *Stocks—\$250,000 The Detroit Co. carrying value.*—Our report shows this stock impaired to the extent of \$251,730.22. This stock should be entirely eliminated from your assets thru charge to your profit-and-loss account. \$4,000,000 First Detroit Co. Carrying value. Our report shows this stock impaired to the extent of \$123,517.90. This deficiency should be taken care of by the transfer into a special reserve account from the undivided profits account of enough to fully cover same.

4. *Reserves.*—Your reserves were short \$3,406,115.94 upon date of examinations. We cannot consider your time, C. D's & svgs accounts which amount to \$710,040.44 as reserve. Demand funds only can be classified as reserves.

It is also our understanding that the bond sinking fund accounts will be segregated & a 100% reserve set up the same as for the fiduciary accounts.

This Department frowns upon the plan of building up your reserves through a reciprocal deposit arrangement with other Detroit banks. We realize the present plan of setting up reserves was recently inaugurated, however the plan of reciprocal deposits should be discontinued as fast as the necessary reserves are built up.

Kindly advise the status of your reserves on date of reply.

The matter of deducting your fiduciary account from your liabilities, and also the 100% reserve for same from your assets in making a published report will be referred to the Commissioner, and you will hear direct from the Office at Lansing, as regards same.

This letter, together with your authorized reply, should form a part of your Directors' minutes. Your reply, direct to the office at Lansing, will be expected not later than October 20, 1931.

(Signed) R. A. CARROLL, *Examiner*.

What was the stock of the Detroit Co. referred to here, \$250,000 carrying value, which, according to the examination of the State banking department, they found to be impaired to the extent of \$251,730?

MR. STONE. Might I say, preliminary to that, as I have several times before, that as chairman of the board I would not have direct knowledge of this—I mean of all the facts in there. Some I have. The letter starts by referring to Mr. Browning, Mr. Butler, and Mr. Thomas, calling these matters to their attention. I do not want to make that statement any more, Mr. Pecora.

MR. PECORA. This letter also specifically requests that it be brought to the attention of the board of directors.

MR. STONE. Yes.

MR. PECORA. You, as chairman of the board, then, must have had this letter brought to your notice, if, in turn, it was brought to the notice of the board.

MR. STONE. I do not mean that at all. The Detroit Co. was a corporation fully owned by the Detroit Trust Co. for the purpose of transacting its bond business outside the State of Michigan, having offices in New York, Chicago, Los Angeles, and San Francisco, the object of incorporating it being to avoid the necessity of making application to the proper authorities in those States to qualify the Trust Co. to transact business in those States. We organized the corporation just for that purpose only.

MR. PECORA. What action was taken by the board with regard to recommendations made by Mr. Carroll in this letter, that this stock of the Detroit Co., which was then being carried on the books of the trust company as an asset valued at \$250,000, should be entirely eliminated, through a charge to profit-and-loss account?

MR. STONE. Have you a copy of our answer that I could use?

MR. PECORA. We have no copy of any such reply, Mr. Stone.

MR. STONE. Have you one, Mr. Thomas?

MR. THOMAS. Was that the examination in 1931?

MR. PECORA. The examination made as of August 31, 1931. This letter is dated September 18, 1931.

(Mr. Thomas produces a paper and hands the same to Mr. Stone.)

MR. STONE. Paragraph 3 in our letter, entitled "stock"—

MR. PECORA. Yes; and it is paragraph 3 of the examiner's letter.

MR. STONE. We would answer by similar number.

MR. PECORA. Have you a copy of any letter that was sent in behalf of the Detroit Co. as an answer to this letter of the examiner marked in evidence as Committee's Exhibit 109?

MR. STONE. Yes, sir. That is what I am reading from.

MR. PECORA. Will you please produce a copy of the entire letter?

MR. STONE. Do you wish to see it?

MR. PECORA. Yes, sir.

Mr. STONE. Certainly [handing paper to Mr. Pecora].

Mr. PECORA. Do you know this to be a true copy of such letter?

Mr. STONE. I believe it to be.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Letter, Thomas to Reichert, Oct. 27, 1931, was received in evidence and marked "Committee Exhibit No. 110, Jan. 31, 1934", and portions of the same were subsequently read into the record by Mr. Stone.)

Mr. PECORA. Now you may refer to it.

Mr. STONE [reading]:

3. Stocks—

Mr. PECORA. Have you another copy for your own use?

Mr. STONE. No.

Mr. THOMAS. He has it marked.

Mr. STONE [reading]:

3. The examiner states in his letter that he believes the stock of the Detroit Company which we are carrying now at the value of \$25,000 should be entirely eliminated from our assets through a charge to our profit and loss account. Inasmuch as the stock is still owned by the Detroit Trust Company we do not feel that we should entirely eliminate this item from our assets, but we have charged our undivided profit account and set up a reserve against the Detroit Company deficiency, of \$250,000, the total amount at which we are carrying this stock.

In other words, I understand that we carried out his instructions.

Mr. PECORA. In his letter of September 18, 1931, Examiner Carroll makes a further recommendation under the caption of "Stocks" with regard to setting up a special reserve to cover the impairment in the value of the capital stock of the First Detroit Co. Was that done?

Mr. STONE. Further reading from paragraph 3 [reading]:

In this same paragraph the examiner states that they find the \$4,000,000 book value at which we are carrying the stock of the First Detroit Company to be impaired to the extent of \$123,517.90. To take care of this deficiency we are charging undivided profits \$200,000 and crediting this amount to the reserve against depreciation on First Detroit Company Stock.

I am not reading now, but there was about \$77,000 more charged off than the examiner recommended.

Mr. PECORA. May I have a copy of that letter to the Commissioner?

(Mr. Stone handed exhibit 110 to Mr. Pecora.)

Mr. PECORA. You observe that Examiner Carroll in his letter of September 18, 1931, called attention to the fact that total loans of the trust company as of August 31, 1931, secured by Detroit Bankers Co. stock, plus a loan to the Detroit Bankers Co., comprised 31½ percent of the total loans and discounts of the trust company at that time. You notice that, do you not?

Mr. STONE. I do not know that I get that clearly in my head. What made up the 31 percent?

Mr. PECORA. The loans secured by Detroit Bankers Co. stock, plus a loan to the Detroit Bankers Co., the specific amount of which is not given in Examiner Carroll's letter. He calls attention to the fact that those loans aggregate 31½ percent of the total outstanding loans and discounts shown by the examination of August 31, 1931.

Mr. STONE. That refers only to our collateral loans.

Mr. PECORA. Yes.

Mr. STONE. Not to mortgage loans or any other kind. I have no reason to doubt the statement, but I do not know about the fact.

Mr. PECORA. In your reply, or in the reply of the trust company to this letter of September 18, 1931, on the subject of loans and discounts, you said as follows (reading):

In compliance with your recommendation we have discontinued for the present making loans secured by Detroit Bankers Company stock and will gradually reduce the present loans which we have predicated on this stock. However, there will be one exception to this. Recently each of the units of the Detroit Bankers Company agreed to carry the loans of all officers and employes of that unit. This will mean a transfer of officers' and employes' loans between the various units. A great many of these loans are secured by Detroit Bankers Company stock, and under this plan we shall be obliged to take over from other units loans in the approximate amount of \$275,000, whereas the other units will take up from us loans in the amount of \$110,000. This will mean a net increase of approximately \$165,000 face amount of loans, many of which are predicated on Detroit Bankers Company stock.

Was it not known to you currently, as chairman of the board of the trust company, that the trust company was carrying a large amount of collateral against loans which consisted of stock of the Detroit Bankers Co.?

Mr. STONE. Yes, in a general way.

Mr. PECORA. Was that regarded by you as sound banking policy, for the bank to have that large concentration of collateral?

Mr. STONE. Not if it could be prevented, but those loans, I think, were made up largely, if not entirely of loans formerly made on stock of the bank units, which afterwards went into the holding company, and when they exchanged their stock in the banks they naturally received Detroit Bankers Co. stock, which remained as collateral to these loans.

Mr. PECORA. The market value of that Detroit Bankers Co. stock would be affected by any change in the dividends paid on that stock, would it not?

Mr. STONE. Yes.

Mr. PECORA. Don't you know, as a director of the Detroit Bankers Co. at that time, that all the other unit banks of the Detroit Bankers Co. carried heavy concentrations of collateral against loans, consisting of Detroit Bankers Co. stock? In other words, do you not know that that condition prevailed generally throughout the unit banks of the company?

Mr. STONE. I do not know. I do not recall that any report was made to the directors of the Detroit Bankers Co., but I think it is fair to say that I knew of the fact in a general way.

Mr. PECORA. Any depreciation in the market value of the Detroit Bankers Co. stock would, to the extent of such depreciation, undercollateralize the loans which the various unit banks held, and which were secured by Detroit Bankers Co. stock, would it not?

Mr. STONE. It would reduce the collateral value. Whether it would render them undercollateralized or not would depend upon the facts in each case, the amount of stock pledged, and whether they had other securities pledged.

Mr. PECORA. You know as a matter of fact, Mr. Stone, that most of the loans carried by the unit banks, and which were secured

principally by Detroit Bankers Co. stock, became ultimately under collateralized?

Mr. STONE. I do not think I have ever seen any reports of the various banks upon that subject.

Mr. PECORA. Apart from specific reports, is not that within your knowledge as a member of the board of directors of the Detroit Bankers Co.?

Mr. STONE. I would not like to say that it was, from actual fact or knowledge. I would not question the fact, however.

Mr. PECORA. Through this policy of the unit banks having these heavy concentrations of collateral against loans, consisting of Detroit Bankers Co. stock, were not the unit banks put in a position whereby in order to prevent any depreciation in the market value of that Detroit Bankers Co. stock, they had to extend themselves to the utmost in paying dividends to the Detroit Bankers Co. so as to enable the latter, in turn, to meet its dividend requirements of 10 percent on the par value of its own capital stock?

Mr. STONE. I do not think that influenced them in the payment of dividends or fixing the rate. I can speak for myself. It would not influence me.

Mr. PECORA. Would not that have been the effect, a necessary effect and consequence, of these heavy concentrations of collateral consisting of Detroit Bankers Co. stock?

Mr. STONE. To what effect do you refer? That the higher the dividends the——

Mr. PECORA. No; that unless dividend requirements on the Group Co. stock were met by the Detroit Bankers Co., the market value of that stock would depreciate, and to that extent the loans secured by that stock in the various unit banks would become impaired as to the security to the extent of such depreciation?

Mr. STONE. Another way of stating that would be that as the dividends went down, the market value of the stock would go down, and its value as collateral would go down.

Mr. PECORA. Yes.

Mr. STONE. Yes; I think that is true.

Mr. PECORA. Did not that put the various unit banks under the burden, so to speak, of going the limit by way of declaration of dividends to the Detroit Bankers Co. to enable the Detroit Bankers Co. to meet its dividend requirements on its own capital stock, so as to support the market value of it?

Mr. STONE. The Detroit Bankers directors may have been subject to influences of that kind in their minds, but I do not think that it had any effect in fixing the dividends of the Detroit Bankers Co.

Mr. PECORA. Mr. Stone, if that influence would manifest itself on the directors of the Detroit Bankers Co., would it not also manifest itself on the boards of directors of the various unit banks, in view of the fact that there sat on the boards of the various unit banks, in every instance, officers or directors of the Detroit Bankers Co.?

Mr. STONE. I think naturally that whatever information they obtained from their membership, whatever opinions they formed from their membership on the Detroit Bankers Co., would be used, and would influence them in connection with their duties as directors of the constituent units.

Mr. PECORA. Yes; that is a normal consequence, is it not, of that relationship and tie-up between the unit banks and the officers of the holding company?

Mr. STONE. For the good of both the units and the Detroit Bankers Co.

Mr. PECORA. For good?

Mr. STONE. Yes.

Mr. PECORA. Also for evil.

Mr. STONE. It might be, if they were minded; but I believe they were not.

The CHAIRMAN. What was the capital of the Detroit Bankers Co.?

Mr. STONE. The capital was 50 million authorized and 35 million issued, I believe.

The CHAIRMAN. Was it listed on the stock exchange?

Mr. PECORA. On the Detroit Stock Exchange?

Mr. STONE. Yes; I think it was.

The CHAIRMAN. What was the par value?

Mr. STONE. \$20 per share.

The CHAIRMAN. It was sold to the public, was it?

Mr. STONE. Yes, sir; the public dealt in it. It was not sold to the public by the Detroit Bankers Co.

The CHAIRMAN. No; but it was dealt in on the stock exchange.

Mr. PECORA. It was traded in.

Mr. STONE. It was traded in; yes, sir.

Mr. PECORA. The 35 million dollars of stock originally issued was issued in exchange for capital stock of unit banks?

Mr. STONE. That is correct.

The CHAIRMAN. Do you know how it was quoted about this time?

Mr. STONE. No, sir; I could not remember.

Mr. PECORA. Around the end of 1931 I think the stock was quoted at about \$30, compared with a quotation of about \$80 at the end of 1930. Is that your recollection?

Mr. STONE. I do not recall really. I did not keep track of it.

The CHAIRMAN. What are the latest quotations?

Mr. STONE. The latest are nothing.

Mr. PECORA. The question of statutory liability is involved, too, so that instead of being an asset the stock might be a liability to the holders of it.

Mr. STONE. I think it was around \$10 to \$15 at the end of 1932, or something like that.

The CHAIRMAN. That is what I mean.

Mr. PECORA. Is it not apparent to you, Mr. Stone, in view of what you have frankly acknowledged to be the situation with regard to these concentrations of Detroit Bankers Co. stock among the various unit banks as collateral for loans, that the boards of directors of the different unit banks were influenced in their dividend declarations by the situation in which not only the Detroit Bankers Co. found itself but the unit banks as well?

Mr. STONE. I am sorry I cannot agree with you as to that. I can speak for myself, but I did not even have it in mind. What was running through the minds of the other directors I do not know. I recall no discussion of that fact at board meetings.

Mr. PECORA. Let us see how it operated in your own mind. You were chairman of the board of the Detroit Trust Co. at the same time

that you were a member of the board of directors of the Detroit Bankers Co., were you not?

Mr. STONE. Yes, sir.

Mr. PECORA. You have already said that it was in the minds of the directors of the Detroit Bankers Co. that it was advisable for them, or necessary for them, to meet their dividend requirement on their capital stock in order to maintain the market price of the stock.

Mr. STONE. Oh, no. If I made such a statement, I would like to have it corrected. I do not think that the influence of dividends on the stock market was in the minds of any of the directors.

Mr. PECORA. Then I have completely misunderstood the testimony you gave within the last few minutes on that.

Mr. STONE. I may have misunderstood your question, then.

Mr. PECORA. You, as a director of the Detroit Bankers Co., knew that large concentrations of that company's stock were in the various unit banks as collateral for loans, did you not?

Mr. STONE. Yes; I think I had a general knowledge.

Mr. PECORA. You had not only the general knowledge as a director of the Bankers Co., but you had a specific knowledge as chairman of the board of the Detroit Trust Co., as to the extent to which that particular banking unit held large blocks of the Detroit Bankers Co. stock as collateral for loans.

Mr. STONE. Yes, sir; acquired in the way I have explained.

Mr. PECORA. Yes. Now, you knew, as the result of that knowledge that unless the Detroit Bankers Co. paid dividends on its capital stock, the market value of the capital stock would be depreciated.

Mr. STONE. I would say that that is a correct statement.

Mr. PECORA. Yes.

Mr. STONE. But I would also say that I did not have that in mind at any time when dividends were being discussed.

Mr. PECORA. And if that is a correct statement, is it not also a correct statement that any such depreciation in the market value of the Detroit Bankers Co. stock that would follow a failure of dividend payments would be reflected in all the unit banks which held large concentrations of that stock as collateral for loans?

Mr. STONE. Yes; that would follow.

Mr. PECORA. And in order to avoid all those consequences, none of which would be beneficial to the unit banks which held these large concentrations of stock, it was advisable to meet the dividend requirements on the capital stock of the Detroit Bankers Co.

Mr. STONE. I would have to repeat that I do not think that was in the minds of the directors of the Detroit Bankers Co. I say that because at any meeting which I attended that was never discussed or considered.

Mr. PECORA. Mr. Stone, don't you know that various national bank examiners that examined national banking units of the company had, at various times, criticized the dividend-paying policy of those national banks because of conditions that were then existent?

Mr. STONE. No; I really did not know that. It was not within my knowledge.

Mr. PECORA. Were not the various reports of examinations made by national-bank examiners, as well as by State bank examiners to

those unit banks, discussed by the board of directors of the Detroit Bankers Co.?

Mr. STONE. I do not recall that they were, but that does not mean that they were not.

Mr. PECORA. From the fact that you do not recall that they were, and your statement that that does not necessarily mean that they were not, is it fair to infer that you were not a regular attendant at meetings of the board of directors of the Detroit Bankers Co.?

Mr. STONE. No. I was quite a constant attendant, except when I went away on a vacation.

Mr. PECORA. The Detroit Bankers Co., as virtually the sole stockholder of these various banks, had a very legitimate and natural interest, in fact, an impelling interest, in keeping itself informed as to the condition of its various unit banks?

Mr. STONE. Yes.

Mr. PECORA. And for that reason I would assume that reports of examinations made by both the Federal and State banking authorities of the various unit banks would be brought to the notice of the board of directors of the Detroit Bankers Co., because of the legitimate interest they had in the condition of the unit banks. Is that a fair assumption?

Mr. STONE. I imagine they were not. I imagine they were submitted to the directors of the national bank in the group, but I doubt whether those reports were submitted to the directors of the Detroit Bankers Co. I think I would have remembered if it they had been.

Mr. PECORA. In view of the fact that there sat on the boards of directors of these various National and State banks that were units of the group, gentlemen who were also officers and directors of the group, would not the knowledge that those gentlemen acquired as directors of the unit banks be their knowledge as directors of the holding company?

Mr. STONE. Yes. You mean that whatever persons were directors of the First National Bank—let us take it after it was consolidated—and were also directors of the Detroit Bankers Co. would as directors of the Detroit Bankers Co. have knowledge of these examiners report?

Mr. PECORA. Exactly.

Mr. STONE. Certainly.

Mr. PECORA. And when they sat at board meetings of the Detroit Bankers Co. they did not leave their knowledge of the unit banks, acquired by them as directors of the unit banks, wholly outside the board room, did they?

Mr. STONE. Not at all.

Mr. PECORA. And it is fair to assume that that knowledge contributed to the action, or to the decisions which the board of directors of the Detroit Bankers Co. made from time to time on matters of company policy, is it not?

Mr. STONE. To the extent that the facts in the examiner's report would have reference or have a bearing, yes.

Mr. PECORA. Was there never any discussion at board meetings of the Detroit Bankers Co. that you now recall of matters connected with the operation and condition of the various unit banks

that had been the subject of criticism to those banks by the bank examiners, both State and Federal?

Mr. STONE. I do not recall anything specifically. I think they were handled within the meetings of the directors of the banks themselves.

Mr. PECORA. Now, with regard to the fourth paragraph of Mr. Carroll's letter to the Detroit Trust Co. marked in evidence as "Committee's Exhibit 109", under the caption of "Reserves", Mr. Carroll said, in part, as follows [reading]:

This Department frowns upon the plan of building up your reserves through a reciprocal deposit arrangement with other Detroit banks. We realize the present plan of setting up reserves was recently inaugurated. However, the plan of reciprocal deposits should be discontinued as fast as the necessary reserves are built up. Kindly advise the status of your reserves on date of reply.

What kind of reciprocal deposit arrangement was Mr. Carroll referring to there, Mr. Stone?

Mr. STONE. He was referring to deposits made by the First National Bank of Detroit, I think it was called then, and the Peoples Wayne County Bank, and the Detroit Savings Bank, upon certificates of deposit with us.

Mr. PECORA. Those are the deposits that are specifically mentioned in Committee's Exhibit No. 108, consisting of Mr. Van Every's report or statement, are they not?

Mr. STONE. Yes.

Mr. PECORA. And according to committee's exhibit 108, the aggregate amount of those deposits on August 8, 1931—or rather, that was the date when they were opened—was \$6,700,000, distributed through those three banks, the Peoples Wayne County Bank, the First National Bank of Detroit, and the Detroit Savings Bank.

Mr. STONE. That is correct.

Mr. PECORA. Now, at the time of the making of these deposits by the Detroit Trust Co. in those three banks of trust funds aggregating \$6,700,000, did those three banks, in turn, make reciprocal deposits corresponding to the respective deposits opened with them?

Mr. STONE. They made deposits, but not reciprocal deposits.

Mr. PECORA. What kind of deposits did they make?

Mr. STONE. May I see that memorandum, please?

Mr. PECORA. This one [indicating], or Mr. Carroll's letter?

Mr. STONE. Either one.

(Mr. Pecora handed a paper to the witness.)

Mr. STONE. They were not reciprocal, because these deposits in Exhibit No. 108, \$6,700,000, were fiduciary accounts. The deposits which were made by the banks with us were on certificates of deposit, ordinary deposits. They were not reciprocal.

Mr. PECORA. What was the amount of those deposits made with the Detroit Trust Co. by those three banks at the time of the opening of these three deposit accounts with those three banks?

Mr. STONE. They were the same amounts.

Mr. PECORA. They corresponded exactly, did they not?

Mr. STONE. Yes.

Mr. PECORA. \$6,700,000 in the aggregate?

Mr. STONE. That is correct.

Mr. PECORA. You say they were not reciprocal deposits?

Mr. STONE. No, sir.

Mr. PECORA. How do you account for the absolute correspondence in amount? That was not a mere coincidence, was it?

Mr. STONE. No; not at all. We found it advisable to segregate our trust balances; that is, to make deposits in other banks separately, as to fiduciary accounts.

Mr. PECORA. Yes.

Mr. STONE. We had not sufficient cash balances at the time to do that, so we solicited deposits from the First National Bank of Detroit, the Peoples Wayne County Bank, and the Detroit Savings Bank, those three banks mentioned there.

Mr. PECORA. And you got deposits in response to your solicitations from those three banks?

Mr. STONE. Yes.

Mr. PECORA. In amounts exactly corresponding to the amounts of deposits of fiduciary funds that the Detroit Trust Co. made in those three banks?

Mr. STONE. That is correct.

Mr. PECORA. And you got them at the same time that you made those deposits in those three banks of fiduciary funds, did you not?

Mr. STONE. That is correct.

Mr. PECORA. You say those are not reciprocal deposits?

Mr. STONE. No, sir.

The CHAIRMAN. They are reciprocal in amount.

Mr. STONE. They are equal in amount and equal as to date.

Senator COUZENS. What did you say to those banks when you asked them for a deposit?

Mr. STONE. I do not recall.

Senator COUZENS. Now, Mr. Stone, you know just as well what took place at those times as any person that was ever on this witness stand.

Mr. STONE. Yes.

Mr. PECORA. You know what was said to those banks when you solicited deposits. I would like to have the record show what you said to the banks.

Mr. STONE. I do not recall the exact conversation, but I presume we said to them that we needed these funds to segregate our trust balances.

Senator COUZENS. Then what did you do?

Mr. STONE. Then what?

Senator COUZENS. Then what did you promise to do? When you solicited these deposits, what did you promise the banks to do when you got the deposits?

Mr. STONE. We did not promise them anything that I know of, except to pay them as we were able to collect out of the assets of the company sufficient for that purpose, and that was done. Those certificates of deposit were reduced from time to time as the company was in funds for that purpose.

Senator COUZENS. Now, look here. When you asked the Detroit Savings Bank, for example—I am just using that because that was not one of your subsidiaries or group units—when you asked them for a deposit of half a million dollars, didn't you promise to put half a million dollars back as a trust fund?

Mr. STONE. Yes.

Senator COUZENS. That is what I am trying to get at.

Mr. STONE. Certainly.

Senator COUZENS. Is not that reciprocity?

Mr. STONE. It is not a reciprocal account. It is reciprocity.

Senator COUZENS. Certainly. What is the difference between a reciprocal account and reciprocity? You told the Detroit Savings Bank that if they would put in half a million dollars with you, under a certificate of deposit, you would, in turn, put half a million dollars back with them.

Mr. STONE. The difference is——

Senator COUZENS. You do not deny that, do you?

Mr. STONE. No; that is all right. The difference is that the fiduciary account belonged to the trusts.

Senator COUZENS. We understand that. But you know that you did not have the money that you ought to have had for your fiduciary account. You had used it for other purposes and, therefore, did not have your fiduciary cash that was required by law, so you borrowed it, in effect, from these other units to make good your fiduciary account. You cannot deny that. That is a fact.

Mr. STONE. We did not borrow it.

Senator COUZENS. No; you got it as a deposit.

Mr. STONE. Yes.

Senator COUZENS. You can use all the technical language you like. It does not change the views of this committee.

Mr. STONE. A reciprocal account is where there is a mutual offset. There was none in this case. One deposit belonged to the trusts. The other belonged to the banks which made the deposits.

Mr. PECORA. Was not that mutual offset claimed by the savings bank in this particular instance?

Mr. STONE. Yes. It was also claimed at first by the national bank and the receiver of the national bank, by instructions of the Comptroller, recognized that it was not reciprocal, that there was no offset, and paid the dividends upon the fiduciary accounts.

The CHAIRMAN. Was any interest paid by you on these deposits or by the banks?

Mr. STONE. Yes, sir.

The CHAIRMAN. The interest was the same each way?

Mr. STONE. I would not be able to testify as to that. The deposits received the current rate of interest paid by the bank, and the certificates of deposit bore some rate of interest. I do not recall what it was.

The CHAIRMAN. We will take a recess now until 2 o'clock.

(Whereupon, at 1 p.m., Wednesday, Jan. 31, 1934, a recess was taken until 2 p.m. of the same day.)

AFTER RECESS

The subcommittee resumed at 2 p.m., on the expiration of the recess.

The CHAIRMAN. The subcommittee will resume. You may go ahead, Mr. Pecora.

Mr. PECORA. Mr. Stone will resume the stand.

TESTIMONY OF RALPH STONE—Resumed

Senator COUZENS. Mr. Stone, while Mr. Pecora is looking up some data, let me ask you this question: When you decided to set up these fiduciary trust balances you did not have the money to do it with, is I understood you to testify this morning, did you?

Mr. STONE. Not sufficient money.

Senator COUZENS. What became of the money that was held in the fiduciary department so that you were unable to set up the necessary reserves?

Mr. STONE. It was represented in the company investments and company cash.

Senator COUZENS. What do you mean by "in the company cash"?

Mr. STONE. Cash in banks to the credit of the Detroit Trust Co.—in various banks.

Senator COUZENS. Couldn't you have withdrawn that money and put it into your fiduciary trust account?

Mr. STONE. Yes; if the amount was sufficient. But we had to keep balances for company use as well.

Senator COUZENS. So you conceived this method of getting deposits to enable you to cover the trust accounts?

Mr. STONE. Yes, sir; until company assets could be converted sufficient to cover it.

Senator COUZENS. I have been wondering how it was that company assets, the fiduciary trust account I mean, became involved in the investment business.

Mr. STONE. Well, they did not until as depreciation progressed it was difficult to make collections, and collections became slower. Prior to that time we generally, or almost always, had on hand an amount in excess of the trust balances. It was that which called our attention to the necessity of making the segregation actual.

Senator COUZENS. Well, at some time or other, then, you must have invested those fiduciary trust balances in company investments, otherwise you could not have used up the balances.

Mr. STONE. Naturally; yes.

Senator COUZENS. Well, do you think that was an ethical practice, to use fiduciary trust balances with which to make company investments?

Mr. STONE. Oh, yes. That was what was done with deposits generally. It is recognized in the Federal Reserve Act. That act provides that national banks with trust departments may deposit their trust balances in the banking department. They are required, by the act I mean, to set aside securities, consisting of United States bonds and other classes of bonds specified by the Federal Reserve Board, as proper for that segregation to secure it.

Senator COUZENS. But you had not followed that practice, otherwise they would have been available to make good your fiduciary balances.

Mr. STONE. We had not followed actual segregation, but we had the capital, surplus, and undivided profits as security. The same practice prevails in New York State.

Senator COUZENS. I do not understand how your capital could be considered an equivalent security, because it was not available when you wanted it to make good your trust balances.

Mr. STONE. It would not, of course, be equivalent to a special pledge of assets as security.

Senator COUZENS. No.

Mr. STONE. But it was there to protect the trust funds.

Mr. PECORA. Was a 100-percent reserve set up and maintained against those fiduciary or trust accounts?

Mr. STONE. It was not specifically set up, but there was a 100-percent reserve in the form of cash on hand, the most of the time. That is, cash on hand in excess of the trust balances. We were advised by counsel that so long as that was done and the funds were invested with reasonable promptness, and the interest was credited on the balances, we were handling it in the proper manner. Also that the books of the company showed credits to the trusts, with specific amounts due to each.

Mr. PECORA. I want to show you what purports to be photostatic copies of three certificates of deposit, each issued by the Detroit Trust Co., and each dated August 8, 1931, the first one payable to the Peoples Wayne County Bank of Detroit in the sum of 4½ million dollars; the second one payable to the First National Bank in Detroit, in the sum of \$1,700,000; and the third payable to the Detroit Savings Bank, in the sum of \$500. Will you look at them, please, Mr. Stone, and tell me if you recognize them to be true and correct copies of certificates of deposit issued by the Detroit Trust Co. on the date which those certificates bear?

Mr. STONE (after looking at the three photostats). They are.

Mr. PECORA. Now, those are the three certificates of deposit through the medium of which the so-called "reciprocal deposits" were made by the First National Bank in Detroit, the Peoples Wayne County Bank, and the Detroit Savings Bank, were they?

Mr. STONE. They were, but—

Mr. PECORA (interposing). But you object to calling them "reciprocal deposits"?

Mr. STONE. Yes; I wouldn't call them that.

Mr. PECORA. Doesn't it appear to you that the State bank examiner, Mr. Carroll, regarded those as reciprocal deposits when he made reference to them as such in his letter of September 18, 1931?

Mr. STONE. He called them that, but we did not agree with him on his terminology.

Mr. PECORA. I will now read to you from committee exhibit no. 110, in evidence on this date, which is the copy of the letter that you produced this morning, addressed by the Detroit Trust Co. to the commissioner of State banking, in reply to the letter of Examiner Carroll, referring to what you say in the matter of reserves:

We have on deposit in the fiduciary account \$6,700,000. We have segregated the balances in court trusts, the total of which is \$1,918,991. The total cash balances in mortgage sinking fund accounts, other than those wherein the mortgage indenture specifically provides that the fund remain on deposit with us, amounts to \$1,218,227.55.

So you will observe that we have much more than enough in our fiduciary accounts to cover these two classes of balances. Our cash reserve in approved Federal Reserve agents at the present time, after deducting the total of the segregated accounts and maintaining a 100-percent reserve against them, is 21.83—

And what is that?

Mr. THOMAS. Percent, I think it is.

Mr. PECORA. There is a lead-pencil figure there which I cannot quite make out.

Mr. STONE. Percent, I think that means.

Mr. PECORA. All right. I continue:

is 21.83 on our other matured and demand obligations. In addition to these, we have \$2,500,000 par value of United States Government bonds.

Now, that is all that is set forth in paragraph 4 of your letter to the State banking commissioner in reply to paragraph 4, or item 4, of Mr. Carroll's letter to you, or to your Trust Co. I notice that you do not in any way in your letter to the banking commissioner take issue with Commissioner Carroll's reference to these deposits as "reciprocal" deposits.

Mr. STONE. I did not.

Mr. PECORA. Yet you felt that he had improperly characterized those transactions as evidence of reciprocal deposits.

Mr. STONE. Yes, sir.

Mr. PECORA. Well, now, Mr. Carroll in his letter of September 18 calls attention to the fact that the Trust Co.'s reserves as of August 1, 1931, were short \$3,406,125.94 upon the date of the examination. How did that shortage occur?

Mr. STONE. I would not be familiar with that. That was a matter of bookkeeping and accounting, under the jurisdiction of the treasurer.

Senator COUZENS. Well, the treasurer is here.

Mr. PECORA. Very well. I will ask him a few questions.

TESTIMONY OF W. J. THOMAS, TREASURER OF DETROIT TRUST CO.—Resumed

Mr. PECORA. Mr. Thomas, can you answer that question I have just propounded to Mr. Stone?

Mr. THOMAS. I think so.

Mr. PECORA. Will you please do so.

Mr. THOMAS. We appended our explanation in the paragraph that you read there, that according to our computation we had more than the required reserves. You see, the required reserve, by statute, was 20 percent of our matured obligations, and by deducting from our total of fiduciary accounts, of \$6,700,000, the actual amount that was segregated, and using the difference, together with our other cash balances in approved Federal Reserve agents, we had at that time something over 21 percent on our matured obligations. That was our explanation to the banking department, and they made no further criticism of it, I mean pertaining to that particular date.

Mr. PECORA. Now, Examiner Carroll, in his letter of September 18, 1931, stated as follows:

The matter of deducting your fiduciary accounts from your liabilities, and also the 100-percent reserve for same from your assets in making the published report, will be referred to the commissioner, and you will have direct from the office in Lansing his reference to same.

Did you receive any communication from the State banking commissioner on that subject?

Mr. THOMAS. No, sir; I did not. As stated in the last paragraph of our letter, we assumed because we did not hear anything further from them that they wanted us to carry the accounts in our statement. As a matter of fact, they based their cost of the examination on our total footings with these amounts in, which I believe was called to their attention.

Mr. PECORA. Now, Mr. Thomas, Mr. Carroll in his letter refers to the fact that the matters discussed by him in the letter specifically had previously been discussed by him with Mr. Browning, then president of the Trust Co., with Vice President Butler, and with yourself. Do you recall that discussion with Examiner Carroll?

Mr. THOMAS. Yes; I do.

Mr. PECORA. Now, what, in substance, was the discussion that took place with respect to these so-called "reciprocal deposits" referred to by Mr. Carroll in his letter under item 4?

Mr. THOMAS. Well, to the best of my recollection, they realized why we opened the accounts, and that it was the—

Mr. PECORA (interposing). You say they realized why you opened the accounts; but did Mr. Carroll indicate that he knew why you opened them?

Mr. THOMAS. I believe so.

Mr. PECORA. How did he indicate that? What did he say that showed that to you?

Mr. THOMAS. I do not remember his language.

Mr. PECORA. Don't attempt to give us his language, but the substance of what he said.

Mr. THOMAS. Well, that he knew why the accounts were opened, and that—

Mr. PECORA (interposing). Why were they opened?

Mr. THOMAS. To segregate those fiduciary balances.

Mr. PECORA. Why were those corresponding deposits evidence by those certificates of deposit that have been identified by Mr. Stone obtained and used?

Mr. THOMAS. Well, as Mr. Stone has testified, that we either had to solicit deposits or sell assets at a very great depreciation. We considered that by doing it this way it was to the advantage of the company and to depositors and everyone concerned. We could have secured sufficient cash by dumping a tremendous amount of assets on the market at very low market values, but—

Mr. PECORA (interposing). Mr. Chairman, I want to offer at this time the three photostatic reproductions of the certificates of deposit, which have already been identified by Mr. Stone; I now want to offer them in evidence.

The CHAIRMAN. They may be received and made a part of the record.

(A photostat of a certificate of deposit dated Aug. 8, 1931, issued by the Detroit Trust Co. and payable to the Peoples Wayne County Bank of Detroit for \$4,500,000, was marked "Committee Exhibit No. 111, Jan. 31, 1934", and will be found at the end of the day's proceedings.)

(A photostatic reproduction of a certificate of deposit issued by the Detroit Trust Co., dated Aug. 8, 1931, payable to the First National Bank in Detroit for \$1,700,000, was marked "Committee Exhibit No. 112, Jan. 31, 1934", and will be found at the end of the day's proceedings.)

(A photostatic reproduction of a certificate of deposit issued by the Detroit Trust Co., dated Aug. 8, 1931, payable to the Detroit Savings Bank for \$500,000, was marked "Committee Exhibit No. 113, January 31, 1934", and will be found at the end of the day's proceedings.)

Mr. PECORA. Mr. Thomas, do you recall whether Mr. Carroll indicated that he knew of the existence of these three certificates of deposit just offered in evidence?

Mr. THOMAS. Yes; I believe he did.

Mr. PECORA. How did he learn of them, and by what means?

Mr. THOMAS. Probably through that examination.

Senator COUZENS. Does he examine all of your deposit accounts when he makes an examination?

Mr. THOMAS. Well, I don't know, Senator Couzens, whether he examines all of them. I am quite sure they go through the certificate of deposit register.

Senator COUZENS. They do that differently, then, than in the case of the ordinary checking account, do they?

Mr. THOMAS. Oh, I think so; yes, sir.

Senator COUZENS. In the case of all banks?

Mr. THOMAS. Of course, as to that I cannot say. But as I recall they have men go through the certificate of deposit register and so on and, of course, the man doing this particular work balances the certificates, and I suppose observes names, and so forth. I do remember particularly a discussion about whether or not we should carry the amounts in our published statement, because we at first did not carry them as such. We did not want to create the impression that we were inflating our totals or deposits. So from the time the account was opened in August until this examination we did not show them in our daily statement at all. We simply carried them as a memorandum control amount on the general ledger. Then after this discussion that you mention with Mr. Carroll it was the consensus of opinion that they should be carried in the C.D.'s representing a deposit liability of the company, just like any other C.D.'s. But up until that time we did not include them in our daily statement.

Senator COUZENS. How did you carry the deposits that you carried in these other banks for your fiduciary account? How did you carry those on your statement?

Mr. THOMAS. As fiduciary accounts.

Senator COUZENS. Deposited in other banks?

Mr. THOMAS. That is right. At first, you see, we left them out on both sides of the statement. We did not show the fiduciary accounts in the bank, and we did not show the segregated balances in our trust balances. But after that examination we put them both back into the account.

Senator COUZENS. So that was in fact a padding of your deposits, after you put them back in.

Mr. THOMAS. Well, it was done at the suggestion of the Commissioner.

Senator COUZENS. I am not saying at whose suggestion it was done, but that was the fact, wasn't it?

Mr. THOMAS. We purposely did not put them in, in the first place, so that they would not create that impression.

Mr. PECORA. Now, Mr. Thomas, I show you what purports to be a letter addressed by you to Mr. Muir of the investigating staff of the committee, dated January 11, 1934. Will you look at it and tell me if you recognize it to be a letter signed and sent by you to Mr. Muir?

Mr. THOMAS (after looking at the letter). Yes; it is.

Mr. PECORA. Mr. Chairman, I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(A letter dated Jan. 11, 1934, from William J. Thomas, treasurer of Detroit Trust Co., to H. F. Muir, was marked "Committee Exhibit No. 114, January 31, 1934", and will be found immediately following where read by Mr. Pecora.)

Mr. PECORA. The letter just offered in evidence is written on the letterhead of the Detroit Trust Co. and reads as follows:

JANUARY 11, 1934.

Mr. H. F. MUIR,

Senate Investigating Committee, Washington, D.C.

DEAR MR. MUIR: In response to your request I would say that when we opened our fiduciary accounts with the banks in August of 1931, it was not understood by us, and I believe neither was it understood by the banks, that those accounts were entitled to preference in payment as against other deposits in the banks.

The purpose in opening those fiduciary accounts was to segregate trust funds from company funds. After the bank holiday, namely, February 11, 1933, the trusts having funds on deposit in these fiduciary accounts, became creditors of the respective banks and received the same dividends as all other depositors.

Very truly yours,

WILLIAM J. THOMAS, *Treasurer.*

Now, according to this letter, which you wrote on the eleventh of this month, it was considered not only by the Detroit Trust Co., but these other three banks in which these fiduciary funds were deposited that these deposit accounts were not entitled to any preference whatsoever in payment as against other deposits in the banks, wasn't it?

Mr. THOMAS. Well, there was no discussion about that at the time the accounts were opened. That is why I said it was not our understanding and I did not think it was the understanding of the banks because we did not discuss the matter at all. We simply opened the accounts to segregate the trust balances, and there was no discussion at that time that I recall regarding a preference of the account against some other depositor.

Mr. PECORA. And these trusts became creditors together with all other depositors in the banks.

Mr. THOMAS. That is right.

Mr. PECORA. As general creditors, with no preference arising from the fact that the deposits were those of trust funds.

Mr. THOMAS. No; I do not think there was any preference.

Mr. PECORA. I want to ask you this, Mr. Thomas, before I leave the subject of Mr. Carroll's letter of September 11, 1931: I note in this letter that Examiner Carroll calls attention to the rather severe losses in the real estate account, and to the fact that as of August

1931, 503 mortgages, on which the Detroit Trust Co. had made loans, were then in process of foreclosure, and that the face amount of those mortgages in process of foreclosure, was \$2,738,000. It was apparent then that the real estate market in Detroit and its vicinity, I mean in August of 1931, was in a very serious condition, and that real-estate values were depreciating rapidly. Isn't that so?

Mr. THOMAS. Yes. I think that was true generally all over the country.

Mr. PECORA. Yes. And in the face of that condition the Detroit Trust Co. continued to sell to itself as trustee for those trust funds participation certificates in those mortgages.

Mr. THOMAS. Well, I don't know whether there were any sales after that date or not. If so, I imagine there were very few.

Mr. PECORA. Well, according to an exhibit offered in evidence this morning, consisting of reports and data compiled by Mr. Van Every, auditor of the Detroit Trust Co., sales of those participation certificates were made as late as March 2, 1932, to these trust accounts. That seems to be the fact, doesn't it?

Mr. THOMAS. Presumably so.

Mr. PECORA. Would you consider that an exercise of sound judgment on the part of the Detroit Trust Co. as trustee for those trust accounts, to purchase that kind of security for those trust funds?

Mr. THOMAS. Well, it would depend on the actual condition of those mortgages in back of the participation certificates. As I said before, it was a very difficult matter to examine every mortgage and see just what the extent, if any, of the defaults were.

Mr. PECORA. And because it was a difficult matter to do that, it wasn't done.

Mr. THOMAS. Yes; but—

Mr. PECORA (continuing). And purchases were made by the Detroit Trust Co. as trustee of those trust funds from itself as the issuer of those mortgage-participation certificates, and a charge was made of 1 percent as an investment fee in those cases.

Mr. THOMAS. Well, that was in just very few cases, I believe, that we made a charge of 1 percent on the trusts. Of course, I think perhaps at that very time they were analyzing the mortgages. You will remember that we had I think it is something like 25,000 mortgages in our care, both company participation and trust mortgages, totaling about \$70,000,000, and it necessarily took some time to make a complete investigation.

Mr. PECORA. And because of the extent to which the Detroit Trust Co. had invested in real-estate mortgages, the Trust Co. must have known and must have been keenly aware of the depreciation going on during all of that time in real-estate values, that is, during the years 1930, 1931, and 1932.

Mr. THOMAS. I think the company knew as well as anyone else knew.

Mr. PECORA. And with that knowledge, as trustee it bought from itself those mortgage-participation certificates, and considered them good investments for trust funds, did it?

Mr. THOMAS. Well, I don't know. I don't think it would do that with that knowledge.

Mr. PECORA. Well, it had the knowledge, didn't it? You have already admitted that.

Mr. THOMAS. It was accessible; yes. I don't know whether they had completed the examination by that time.

Mr. PECORA. I will now resume my examination of Mr. Stone.

TESTIMONY OF RALPH STONE—Resumed

Mr. PECORA. Mr. Stone, in the month of May 1932 it appears that the Detroit Trust Co. underwent another examination by the State banking authorities. Do you recall that?

Mr. STONE. Yes; I believe so.

Mr. PECORA. And as a result of that examination, which was made as of the close of business on May 23, 1932, didn't the Trust Co. receive from the examiner, Mr. H. G. Taylor, a letter, of which I now show you what purports to be a photostatic copy?

Mr. STONE (after looking at the photostat). The date is blotted out here by a sticker, but I have no doubt that is correct.

Mr. PECORA. No; the date I gave you is the date of the examination, and that is in the body of the letter.

Mr. STONE. That is right, May 23, 1932.

Mr. PECORA. Yes. Is that a copy of a letter received by the Detroit Trust Co. from Examiner Taylor?

Mr. STONE. Yes, sir; from Examiner H. G. Taylor.

Mr. PECORA. Mr. Chairman, I offer that photostat in evidence.

The CHAIRMAN. Let it be admitted.

(Photostatic copy of a letter addressed to the Detroit Trust Co. by H. G. Taylor, examiner of the State of Michigan Department of Banking, was marked "Committee Exhibit No. 115, Jan. 31, 1934", and will be found immediately following where read by Mr. Pecora.)

Mr. PECORA. The document just received in evidence as committee exhibit no. 115, on the letterhead of the State of Michigan Department of Banking, reads as follows:

DETROIT TRUST Co.,

Fort Street at Shelby, Detroit, Mich.

GENTLEMEN: Following is report of the examination of your institution as of the close of business May 23, 1932.

(Matters in general discussed with McPherson Browning, president, L. K. Butler, vice president, and W. J. Thomas, treasurer, during examination.)

Loans and discounts—Advances.—We recommend that credit files be built up in connection with loans and advances to trusts, with special attention to extensions which are not amply protected by marketable collateral.

Complete information should be procured as to the liquidating ability of borrowers, indebtedness and make-up of assets, whereby plans for workout of lines may be formulated.

Tentative classification is herewith attached.

Mortgages.—Schedule of comments attached.

Other real estate.—\$645,321.28 Estimated losses in Other Real Estate.

\$54,891.32 Interest additions.

Bonds.—See attached classification.

Reserves.—Reserves have been short by very substantial amounts almost continuously since our last examination.

A further criticism lies in the fact that certificates of deposit are issued to First Wayne National Bank and the Detroit Savings Bank under a reciprocal deposit arrangement, such liability actually constituting Bills Payable. This should be listed on statement under proper caption.

Dividends.—In view of possible contingencies in working out the general assets of the Company, it is very essential that dividends be suspended until conditions are definitely improved.

Reserve accounts.—All available earnings should be carried to reserve accounts.

This letter, together with your reply, should be incorporated in Directors Minutes, reply to be made on or before August 15th. No detailed report on lines is requested.

Yours very truly,

H. G. TAYLOR, *Examiner.*

Let me ask you, Mr. Stone, as chairman of the board of the Detroit Trust Co. at that time, if this letter was brought to the attention of the board of directors of the Trust Co.

Mr. STONE. I assume it was.

Mr. PECORA. Do you recall it?

Mr. STONE. Not as of any particular meeting; no. But it was our invariable practice.

Mr. PECORA. Do you recall whether or not any reply, such as was requested in this letter, was sent by the Trust Co. to the Michigan department of banking?

Mr. STONE. There was.

Mr. PECORA. Have you a copy of any such letter that was so sent?

Mr. STONE. Yes.

Mr. PECORA. Will you produce it, please?

Mr. STONE. Yes. Here it is.

Mr. PECORA. Mr. Chairman, I offer in evidence the copy of letter produced by the witness.

The CHAIRMAN. Let it be admitted.

(A carbon copy of a letter dated Aug. 2, 1932, addressed to the Department of Banking, Lansing, Mich., by W. J. Thomas, treasurer of the Detroit Trust Co., was marked "Committee Exhibit No. 116, Jan. 31, 1934", and will be found immediately following where read by Mr. Pecora.)

Mr. PECORA. The letter just received in evidence as committee exhibit no. 116, reads as follows:

AUGUST 2, 1932.

DEPARTMENT OF BANKING,
Lansing, Michigan.

(Attention: H. G. Taylor, Examiner.)

GENTLEMEN: We acknowledge receipt today of your report of the examination of our Company as of the close of business May 23, 1932. In this reply we shall refer to the items as captioned in your report:

Loans, discounts, and advances.—Your recommendation regarding the building up of credit files in connection with loans and advances to trusts will be complied with as far as possible. We shall secure all the information we can with respect to these borrowers, and will secure detailed financial statements from as many as will furnish them.

Mortgages.—We have noted your miscellaneous remarks concerning twenty-eight of our mortgage loans, most of which pertain to delinquent payments. We will continue to exert every effort to keep payments up to date. Recently we have augmented our Past Due Department by a staff of outside men whose duties are solely collecting past due interest, principal, taxes, etc. Results from this additional force have to date been satisfactory.

Other real estate.—Your estimate of loss in our Other Real Estate Account is \$645,321.28. Our present reserve for losses in other real estate is \$500,000, which reserve will be gradually increased as we continue our daily reserve accrual.

Bonds.—We have noted your recapitulation of our bond account reflecting in percentages the ratio of investments in various types of bonds. You have made no comments or recommendations so we assume no special action on our part is required.

Reserves.—We have been constantly endeavoring to convert assets into cash so as to improve our position of liquidity thereby providing sufficient cash

reserves. We are insisting upon periodical liquidation of collateral loans; as above stated we are doing everything possible to secure the liquidation of mortgages and we are liquidating our Company bond account as rapidly as satisfactory bids are received. Further, we have made application for a loan from the Reconstruction Finance Corporation, which, if secured, will furnish us with sufficient cash reserves, and together with the continuous gradual liquidation of assets will permit the reduction of the deposit which the First Wayne National Bank and the Detroit Savings Bank have with us, eventually eliminating the reciprocal deposit arrangement to which you refer.

Dividends.—We have neither accrued nor paid any dividend since April 1st of this year, and will continue this policy until there is a substantial improvement in our earnings, in which event we will communicate with your office before paying any further dividend.

Reserve accounts.—As you recommend, all available earnings have been carried to our Reserve Account since April 1, 1932, and this will be continued unless as stated in the above paragraph increased earnings warrant a change of policy.

Your report and this reply thereto have been read to our Board of Directors in regular meeting held August 2, 1932, and have been incorporated in the minutes.

Trusting this is entirely in order and thanking you for your report, we are
Very truly yours,

———, *Treasurer.*

W. J. THOMAS: F.W.

Now, as I read this exhibit, Mr. Stone, did you notice reference therein, under the caption "Reserves" to the "reciprocal deposit arrangement" set forth in Mr. Taylor's letter, which has been received in evidence and marked "Committee Exhibit No. 115"?

Mr. STONE. Yes.

Mr. PECORA. Well, apparently, on August 2, 1932, when this reply was sent by the Detroit Trust Co. to Examiner Taylor's letter, the directors and officers of the Trust Co. had come to the conclusion that there was a reciprocal deposit arrangement with the First National Bank, the Peoples Wayne County Bank, and the Detroit Savings Bank, dating back to those deposits of August 8, 1931; isn't that so?

Mr. STONE. Apparently Mr. Thomas used the same words there, but I do not think we had changed our idea that they were not reciprocal accounts.

Mr. PECORA. Well, now, Mr. Stone, do you think that Mr. Thomas would employ language, and by the employment of such language adopt it, if the board and the officers of the Detroit Trust Co. did not regard that as a reciprocal deposit arrangement?

Mr. STONE. As a matter of fact, I do not suppose it was called, quite naturally, to anybody's attention. It was put in the letter because it was so called by the banking commissioner, as you will see it was so referred to in his letter.

Mr. PECORA. Yes; it was referred to in this language:

Further criticism lies in the fact that certificates of deposit are issued to the First Wayne National Bank and the Detroit Savings Bank under a reciprocal deposit arrangement, such liability undoubtedly constituting bills payable.

Mr. STONE. I imagine in dictating the reply Mr. Thomas naturally used the same language. But that did not change the fact.

Senator COUZENS. Well, don't you think in effect they were bills payable?

Mr. STONE. No; I do not. They haven't any of the elements of bills payable.

Mr. PECORA. Well, now, Examiner Taylor specifically referred to them as constituting bills payable, didn't he?

Mr. STONE. Yes.

Mr. PECORA. And no issue was taken with him in his characterization of those certificates of deposit as representing liabilities constituting bills payable.

Mr. STONE. No; and he apparently thought of them in that light.

Mr. PECORA. Well—

Mr. STONE (continuing). I do not know whether you have a record of it or not, but these balances in the shape of certificates of deposit were reduced from time to time.

Mr. PECORA. I beg your pardon?

Mr. STONE. I say, I don't know whether you have a record of it or not, but the amounts of these certificates of deposit were reduced from time to time.

Mr. PECORA. Are you familiar with the facts as to any such reductions?

Mr. STONE. I think we have a statement of it in our papers here.

Mr. PECORA. All right. Produce it and we will put it into the record.

Mr. STONE. Mr. Thomas will try to find it.

Senator COUZENS. While he is finding that paper let me ask you: How were they reduced?

Mr. STONE. By the bank presenting the certificates and receiving payment on them.

Senator COUZENS. Did you request that they present the certificates?

Mr. STONE. No; I don't know the facts about them, but I presume they came in in the ordinary course of business.

Senator COUZENS. They seem to have been reduced the same as bills payable were reduced. Of course, ordinarily that doesn't happen with a certificate of deposit, does it?

Mr. STONE. Oh, yes. Holders of certificates of deposit frequently bring them in for payment on account and the taking out of new certificates. It happens every day.

Senator COUZENS. These did not happen in that way, though, did they?

Mr. STONE. I think they did.

Mr. PECORA. Will you produce your records to show it?

Mr. THOMAS. Here is a statement showing the balances of the C.D.'s which the banks bought from us, and the corresponding statement of the balances of those fiduciary accounts. Of course, they were never the same after the accounts were opened. I mean the same amount, because we adjusted the fiduciary accounts daily to the actual aggregate of the cash balances in all the segregated trusts.

Mr. STONE. This is a statement of the First National Bank only and not of the Detroit Savings Bank, the First National Bank having been at this time consolidated with the Peoples Wayne County Bank. The total of the certificates of deposit issued to the Peoples Wayne County Bank were \$6,700,000, and this statement shows a deposit of that amount on August 8, and then shows reductions to 4½ million dollars on February 11, 1932.

Mr. PECORA. Will you produce that paper for us?

Mr. STONE. Yes. (Handing to Mr. Pecora a paper.)

Mr. PECORA. I am going to offer in evidence the memorandum produced by the witness, and which is entitled "Detroit Trust Company, Certificates of Deposit held by the First National Bank in Detroit."

The CHAIRMAN. Let it be admitted in evidence.

(A memorandum of Detroit Trust Co., of certificates of deposit held by the First National Bank in Detroit, was marked "Committee Exhibit No. 117, Jan. 31, 1934", and will be found at the end of the day's proceedings.)

Mr. PECORA. Mr. Stone, have you any knowledge of the presentation for payment by the banks to whom these three certificates of deposit were issued, which certificates have been marked "Committee Exhibits 111, 112, and 113", I mean of their being presented for payment?

Mr. STONE. No, sir.

Mr. PECORA. Or that any requests for payment were made by any of these banks?

Mr. STONE. No. That would be an administrative detail that would not come to my attention.

Mr. PECORA. The two certificates of deposit that had been issued on August 8, 1931, respectively, to the Peoples Wayne County Bank of Detroit and the First National Bank in Detroit, for the respective amounts of $4\frac{1}{2}$ million dollars and \$1,700,000, eventually insured to the benefit of the consolidated bank known as the "First Wayne County Bank", didn't they?

Mr. STONE. That is correct.

Mr. PECORA. Have you any schedule similar to the one you have just produced and which has been marked in evidence as "Committee Exhibit No. 117", relating to any payments on account, made to the Detroit Savings Bank?

Mr. STONE. No; there were none.

Mr. PECORA. There were no payments on account made to that bank.

Mr. STONE. No, sir.

Mr. PECORA. Mr. Stone, I want to show you what purports to be a photostatic copy of a report or statement from the files of the Detroit Trust Co. bearing date June 1, 1933. Will you look at it and tell me if you know it to be a copy of such report or statement so on file in the Detroit Trust Co. records?

Mr. STONE. Yes; I recall that. It is a statement that was placed in each trust file where the trust had a balance in the fiduciary account, to instruct the trust officer in what manner the dividends received from time to time from the receiver of the First National Bank should be computed.

Mr. PECORA. I offer that in evidence.

Mr. STONE. It is purely an administrative matter. I do not know that I can explain the principles upon which the computation was made. Maybe I could, but it was an administrative matter.

The CHAIRMAN. The document is admitted.

(Photostatic copy of statement from files of the Detroit Trust Co. dated June 1, 1933, identified by the witness Stone, was received in evidence and marked "Committee Exhibit No. 118, Jan. 31, 1934.")

Mr. PECORA. Do you know who prepared this statement which has just been received in evidence as Committee's Exhibit No. 118?

Mr. STONE. No, I do not; somebody in the office.

Mr. PECORA. I will read it [reading]:

JUNE 1, 1933.

On February 11, 1933, the last day of bank activity prior to the so-called Bank Holiday declared by Governor Comstock, the Detroit Trust Company had two bank accounts bearing the designation "Detroit Trust Company Fiduciary Account" and aggregating \$3,621,449.52. One of them was carried in the First National Bank, Detroit, and amounted to \$3,121,449.52 while the other, in the Detroit Savings Bank, had a balance of \$500,000.

Immediately after the closing of the banks, every effort was made to release funds so that the distress through lack of money might be minimized. In this connection, all the banks of Detroit, Members of the Detroit Clearing House Association, (Detroit Trust Company also) agreed between themselves that 5% could be paid with safety on all deposit balances. This agreement was carried out and while some delay was encountered, the First National Bank, Detroit, paid 5% of the Fiduciary Account to the Detroit Trust Company on February 28, 1933. This payment amounted to \$156,072.47. The Detroit Savings Bank, however, claimed an offset and refused to pay the Detroit Trust Company the \$25,000.00 which otherwise would have been paid. Because of surrounding conditions, this \$25,000.00 was advanced by the Detroit Trust Company and a full 5% of the February 11, 1933, balance was distributed to the trusts segregated as "Fiduciary."

Later on the banks decided to disburse another 5% and on March 22, 1933, the First National Bank, Detroit, again paid \$156,072.48 to the Detroit Trust Company on the Fiduciary Account. No change had occurred in the attitude of the Detroit Savings Bank and again the Detroit Trust Company advanced \$25,000.00 so that all trusts segregated as "Fiduciary" could disburse an additional 5%.

On May 17, 1933, a payment of 30% amounting to \$946,650.19 was received from the First National Bank, Detroit, on said Fiduciary Account. It will be noted that this is in excess of 30% of the balance as of February 11, 1933. This excess is caused by the bank having credited the Fiduciary Account with interest to the beginning of the moratorium. Meanwhile, no change had occurred in the attitude of the Detroit Savings Bank which still refused to make a disbursement against the Detroit Trust Company Fiduciary Account. In order to keep the record straight, it was decided that the Detroit Trust Company should be reimbursed for the funds advanced; namely, \$50,000.00, and this decision was put into effect at once, the remainder, \$896,650.19, being turned over on a pro rata basis to the trusts carried in the Fiduciary Accounts.

I do not think it is necessary to read the balance of it. My purpose in reading it up to this point was to call your attention to the attitude of the Detroit Savings Bank with regard to its claim of offset.

The CHAIRMAN. From what sum were those certificates reduced?

Mr. STONE. I think they were reduced from \$6,700,000 to four and a half millions. The total was \$6,700,000. Payments of \$2,200,000 were made upon it, reducing it to four and a half millions.

Mr. PECORA. Mr. Stone, I want to show you what purport to be photostatic reproductions of five certificates of deposit issued by the Detroit Trust Co., four of them to the Ford Motor Co., payable to the Ford Motor Co., and the fifth one, in the sum of \$2,500, payable on demand to the First National Bank of Detroit. Will you look at them and tell me if you recognize them as being true and correct copies of certificates of deposit issued at the dates mentioned on those copies, in the amounts thereof, and to the parties named?

Mr. STONE. They are evidently on our form. I have no personal knowledge about them, but I should say they are on our forms.

Mr. PECORA. I offer them in evidence; and I would like to have them separately marked, and will ask that they be marked in chronological order.

The CHAIRMAN. Let them be admitted.

(Photostatic copy of certificate of deposit dated Aug. 2, 1929, payable on demand to the Ford Motor Co. in the sum of \$1,000,000, was received in evidence, marked "Committee Exhibit No. 119, Jan. 31, 1934.")

(Photostatic copy of certificate of deposit dated Aug. 13, 1928, payable on demand to the Ford Motor Co. in the sum of \$300,000, was received in evidence, marked "Committee Exhibit No. 120, Jan. 31, 1934.")

(Photostatic copy of certificate of deposit dated Aug. 13, 1928, payable on demand to the Ford Motor Co. in the sum of \$200,000, was received in evidence and marked "Committee Exhibit No. 121, Jan. 31, 1934.")

(Photostatic copy of certificate of deposit dated Sept. 11, 1929, payable on demand to the Ford Motor Co. in the sum of \$1,000,000, was received in evidence and marked "Committee Exhibit No. 122, Jan. 31, 1934.")

(Photostatic copy of certificate of deposit dated Dec. 29, 1932, payable on demand to the First National Bank of Detroit in the sum of \$2,500,000, was received in evidence and marked "Committee Exhibit No. 123, Jan. 31, 1934.")

Mr. PECORA. These certificates of deposit have been marked in evidence as exhibits nos. 119, 120, 121, 122, and 123, respectively. Are you familiar, Mr. Stone, with the transactions represented by these five certificates of deposit?

Mr. STONE. No, sir.

Mr. PECORA. Are you, Mr. Thomas?

Mr. THOMAS. I remember the withdrawal of those amounts.

Mr. PECORA. In chronological order, the first one of these certificates of deposit marked in evidence as "Exhibit 119" is dated August 2, 1929, and is payable on demand to the Ford Motor Co. in the sum of \$1,000,000.

The next one, marked in evidence as "Exhibit 120", is dated August 13, 1928, made payable on demand to the Ford Motor Co. in the sum of \$300,000.

The next one, dated August 13, 1928, made payable on demand to the Ford Motor Co. in the sum of \$200,000, is marked as "Exhibit 121."

The fourth one, marked in evidence as "Exhibit 122", is dated September 11, 1929, and made payable on demand to the Ford Motor Co. in the sum of \$1,000,000.

And the fifth one, marked "Exhibit No. 123", is dated December 29, 1932, and made payable on demand to the First National Bank of Detroit in the sum of \$2,500,000.

I notice, Mr. Thomas, that the amount of the last certificate of deposit, namely, \$2,500,000, corresponds to the aggregate amount of the other four certificates of deposit. Is there any relationship between this last certificate of deposit and the other four?

Mr. THOMAS. I do not know.

Mr. PECORA. Just look at them carefully and search your recollection, if you will.

Mr. THOMAS. All I know is that these certificates were cashed on the 29th day of December 1932.

Mr. PECORA. By the Ford Motor Co.?

Mr. THOMAS. Yes; with instructions to us—they simply concern C.D.'s—to transfer the proceeds to the First National Bank.

Mr. PECORA. The First National Bank of Detroit?

Mr. THOMAS. Yes.

Mr. PECORA. And that was done?

Mr. THOMAS. Yes.

Mr. PECORA. Now I want to show you what purports to be a photostatic reproduction of a deposit slip showing a deposit in the First National Bank, of Detroit, Mich., on December 29, 1932, of \$2,500,000 and interest of \$6,801, making a total of \$2,506,801, which is attached to what purports to be a photostatic copy of a letter addressed to the Ford Motor Co., attention of Mr. D. J. Craig, assistant treasurer, by A. H. Rupp, cashier of the First National Bank of Detroit. Will you look at those photostatic copies of the deposit slip and the accompanying letter?

Mr. THOMAS. Yes.

Mr. PECORA. Is it apparent to you that that deposit slip refers to the \$2,500,000 sent by the Detroit Trust Co. on December 29, 1932, to be deposited to the credit of the Ford Motor Co. in the First National Bank of Detroit?

Mr. THOMAS. Of course, we had nothing to do with making these deposit tickets. These were prepared by the First National Bank. We do not know what instructions they had from the Ford Motor Co.

Mr. PECORA. I know that; but the Detroit Trust Co. did send to the First National Bank of Detroit \$2,500,000, which the Ford Motor Co. required in cashing those four certificates of deposit?

Mr. THOMAS. Yes.

Mr. PECORA. On December 29, 1932; is that right?

Mr. THOMAS. Yes, sir.

Mr. PECORA. As a matter of fact this last certificate of deposit issued by the Detroit Trust Co. for \$2,500,000, payable on demand to the First National Bank of Detroit, was issued to that bank because that bank presented in behalf of the Ford Motor Co. these other four certificates of deposit for cashing, did it not?

Mr. THOMAS. Of course we do not know whether that is the same money, but we got the same amount on the same date from the bank.

Mr. PECORA. Did you get the same money from the First National Bank of Detroit?

Mr. THOMAS. We must have, or we would not have given them that c.d. for two and a half millions.

Mr. PECORA. Did not the First National Bank of Detroit give you that \$2,500,000 in order to enable the Detroit Trust Co. to cash the four certificates of deposit aggregating that amount which had been presented by the Ford Motor Co.?

Mr. THOMAS. I don't think so. I think we had a sufficient cash at that time to pay those c.d.'s.

Mr. PECORA. What was the reason for the issuance, as you recall it, of the certificate of deposit for \$2,500,000 on December 29, 1932?

Mr. THOMAS. The reason for issuing it was because we got that deposit from the bank on that date.

Mr. PECORA. Is that all you recall about it?

Mr. THOMAS. Yes, sir.

Mr. PECORA. You have no other knowledge of the transaction?

Mr. THOMAS. No, sir; I have not.

Senator COUZENS. Have you any evidence here to the effect that you had sufficient money to pay those Ford Motor Co. certificates of deposit at the time they were presented?

Mr. THOMAS. That was December 1932?

Mr. PECORA. December 29, 1932.

Senator COUZENS. Which was just before the crash.

Mr. THOMAS. The only statement I have is of December 31, 1932, in which we show total cash on deposit in banks of six and one half millions.

Senator COUZENS. Where was that cash?

Mr. THOMAS. The First Wayne National Bank. We had three or four accounts there; Detroit Savings Bank, a small balance in the commercial account in addition to our fiduciary account; New York Trust Co.; Bankers Trust Co.; Continental Illinois Bank & Trust Co., and sundry small accounts.

Senator COUZENS. Of that six and one half million dollars that you said you had on hand on December 31, 1932, what proportion belonged to the fiduciary department?

Mr. THOMAS. \$3,800,000.

Senator COUZENS. That is all the fiduciary balance you had on December 31, 1932?

Mr. THOMAS. Yes, sir; according to this statement.

Senator COUZENS. So if you cashed those Ford Motor Co. certificates of deposit, assuming that you had the same balance on hand on December 29, you would have been practically stripped, would you not, if you had not got that two and a half million dollars from the First National Bank? (After a pause.) Is your answer yes?

Mr. THOMAS. Yes. That is, our cash would have been down to a very low point, our company cash.

Mr. PECORA. As a matter of fact, when you said, in answer to Senator Couzens' question, that the amount of fiduciary accounts included in the cash on hand in another bank was only three million eight hundred thousand-odd dollars, were you not in error?

Mr. THOMAS. The First Wayne National Bank, fiduciary account, \$3,876,000.

Mr. PECORA. How about the deposit in the fiduciary account in the Detroit Savings Bank?

Mr. THOMAS. That is right. That was not included.

Mr. PECORA. That makes \$4,376,130.21 as the actual amount?

Mr. THOMAS. Yes.

Senator COUZENS. So, in effect, you did not have the money to pay the Ford Motor Co. certificates of deposit on the date of presentation?

Mr. THOMAS. Before answering that I would like to have a statement of condition on the date—

Mr. PECORA. I will give you what purports to be a photostatic reproduction of statement of condition as of December 31, 1932, taken from the general journal of the Detroit Trust Co.

Mr. THOMAS. That is the one I have. I mean, the date the certificates were paid.

Mr. PECORA. I have not one on December 29.

Mr. THOMAS. I do not know what fluctuation there may have been in our cash during that period.

Mr. PECORA. Here is a photostatic reproduction from the general journal of statement of condition of the Detroit Trust Co. as of December 29, 1932, which shows that the deposits of fiduciary funds or trust accounts on that date amounted to \$3,961,126.92 in the First Wayne National Bank and \$500,000 in the Detroit Savings Bank, or a total on that date of \$4,461,126.92.

Mr. THOMAS. That is right; out of a total of \$7,260,000. So the condition was a little better on that date than it was as of the end of the year.

Mr. PECORA. It shows cash on hand in banks December 29, 1932, over and above the deposits representing trust funds or trust accounts, was \$2,798,874?

Mr. THOMAS. That is right.

Mr. PECORA. So that if it had not been for this certificate of deposit that you got on December 29, 1932, from the First National Bank of Detroit, your cash would have been almost entirely depleted by the cashing of these four certificates of deposit of the Ford Motor Co.?

Mr. THOMAS. It would have been down to approximately \$200,000.

Mr. PECORA. Was not that the reason for obtaining this deposit from the First National Bank of Detroit?

Mr. THOMAS. We did not solicit it. The bank may have had that in mind when they deposited that amount with us.

Mr. PECORA. The First National Bank of Detroit?

Mr. THOMAS. Yes.

Mr. PECORA. May have had what in mind?

Mr. THOMAS. The fact that they wanted to make the deposit so that we would have additional working capital.

Mr. PECORA. Well, was the First National Bank of Detroit in possession of complete knowledge of the financial condition of the Detroit Trust Co. on December 29, 1932?

Mr. THOMAS. I don't know.

Mr. PECORA. That would have been necessary in order to have impelled the First National Bank of Detroit to make that deposit if, as you say, it was not solicited by the Trust Co.

Mr. THOMAS. Well, I think perhaps when those certificates of the Ford Motor Co. were cashed and the money was transferred to the bank—

Mr. PECORA. The First National Bank?

Mr. THOMAS. The First National Bank—I don't know what use they were going to put it to. If they had additional cash come in to them that day, there is no reason why they should not redeposit with us rather than keep it on deposit with themselves.

Senator COUZENS. That augmented the total deposits, did it not? Or at least it did not diminish the deposits in the Detroit Trust Co.?

Mr. THOMAS. No.

Senator COUZENS. But augmented the deposits in the First National?

Mr. THOMAS. No; I do not think it would after they sent the money over to us and purchased our certificates of deposit.

Senator COUZENS. The certificates of deposit they took out from you would not diminish their deposits, would they?

Mr. PECORA. It would enhance their deposits, would it not?

Senator COUZENS. No. It would just make the difference in moneys in other banks.

Mr. THOMAS. That is right.

Senator COUZENS. So it did not diminish the deposits in the Detroit Trust Co., because you got back the amount from the First National.

Mr. THOMAS. Yes.

Senator COUZENS. So that they were then, presumably, on a parity?

Mr. THOMAS. Yes.

Senator COUZENS. In the case of the First National, however, the deposits would be augmented to the extent of the Ford Motor Co.'s deposits of those certificates, would they not?

Mr. THOMAS. Yes; I think that is right, unless Ford, of course, drew the money out from them again.

Senator COUZENS. We are only talking about the transactions you know about.

Mr. THOMAS. Yes.

Senator COUZENS. Apparently he did not take it out. Otherwise they would not have put it back into your trust company, as you have just suggested.

Mr. PECORA. I show you what purports to be a printed statement of condition, as of September 30, 1932, of the First National Bank, Detroit. Will you look at it and tell me if you have seen a copy of it before?

Mr. THOMAS. Are you questioning Mr. Stone or me?

Mr. PECORA. No; you, Mr. Thomas.

Mr. THOMAS (after examining document). I do not recall having seen it.

Mr. PECORA. Are you familiar with it, Mr. Stone?

Mr. STONE. No, sir; I am not.

Mr. PECORA. Mr. Stone, as one of the directors of the Detroit Bankers Co., do you mean to say that you did not receive, or see and examine the reports of statement of condition issued periodically by the biggest banking unit of that group, namely, the First National Bank, Detroit?

Mr. STONE. The directors of the Bankers Co. received combined statements, and I think they did receive statements of the unit banks; yes.

Mr. PECORA. That is one of the statements of one of those unit banks, is it not?

Mr. STONE. Yes; it is.

Mr. PECORA. You are not looking at a copy of that statement for the first time now, are you, Mr. Stone?

Mr. STONE. I cannot state with actual knowledge whether I have seen this statement. I can only say that I presume I did. I presume it was mailed, at any rate, around to all the directors.

Mr. PECORA. What is the amount of total deposits indicated in that statement which you have in your hand, as of September 30, 1932?

Mr. STONE. \$43,167,685.05.

Mr. PECORA. What is the number indicated therein of their time deposit accounts?

Mr. STONE. It is stated here as over 600,000 accounts.

Mr. PECORA. Now, I show you what purports to be a printed copy of a statement of condition of the same bank as of December 31, 1932. Will you look at it and tell me if you are familiar with that?

Mr. STONE (after examining document). The same answer. I presume I have seen it.

Mr. PECORA. That is a statement of condition at a date 3 months subsequent to the statement of condition to which the first report relates.

Mr. STONE. Yes.

Mr. PECORA. What is the total amount of deposits indicated by the statement of condition as of December 31, 1932?

Mr. STONE. \$423,357,897.44.

Mr. PECORA. What is the number of deposit accounts?

Mr. STONE. Over 500,000 accounts.

Mr. PECORA. That is 100,000 less in number than the number reported as of 3 months previous?

Mr. STONE. Yes.

Mr. PECORA. With a reduction of around \$7,000,000 in the deposits.

Mr. STONE. Yes; a trifle under \$7,000,000.

Mr. PECORA. Does that indicate to you that between September and December 1932 steps were being taken by the First National Bank, Detroit, to bolster up its deposit statement?

Mr. STONE. No; I do not see that. It indicates 100,000 accounts were withdrawn, amounting to a little under \$7,000,000.

Mr. PECORA. Does it indicate that by December 1932, as compared with the condition shown to exist in September 1932, a situation had arisen that suggested the advisability of the First National Bank, Detroit, doing something to bolster up its resources?

Mr. STONE. I would not understand so. At least I do not know on what such a supposition would be based.

Mr. PECORA. Well, on the condition of affairs, plus the issuance of this certificate of deposit of \$2,500,000 that has last been offered in evidence.

Mr. STONE. \$2,500,000 out of total deposits of \$423,000,000?

Mr. PECORA. \$2,500,000 would be a contribution to keeping up the appearance of strength, would it not?

Mr. STONE. I should not think so, in a bank of that size. Two and a half million dollars is a common transaction.

Mr. PECORA. Do you happen to know, as a director of the Detroit Bankers Co., which owned practically all the capital stock of the First National Bank, Detroit, that on the 3d of January 1933 the Ford Motor Co. withdrew from its deposit account in the First National Bank, Detroit, \$5,869,000?

Mr. STONE. No.

Mr. PECORA. You do not know that?

Mr. STONE. No, sir.

The CHAIRMAN. Do you know what the deposits were in February 1933, Mr. Stone?

Mr. STONE. Of the First National?

The CHAIRMAN. Yes.

Mr. STONE. No, sir; I do not. I was not an officer at that time.

The CHAIRMAN. I knew you were not an officer, but I thought perhaps you might know it. They were \$378,000,000.

Mr. PECORA. Mr. Thomas, will you look at these photostatic copies of what purport to be four certificates of deposit issued by the Detroit Trust Co., payable to the Ford Motor Co. on demand, each one dated December 29, 1932, and made for the following respective sums: \$1,000,000, \$1,000,000, \$300,000, \$200,000. Tell me if you recognize them as being copies of certificates of deposit so issued by the Detroit Trust Co. to the order of the Ford Motor Co.

Mr. THOMAS (after examining papers). Yes; I would say they were.

Mr. PECORA. You recognize them?

Mr. THOMAS. Yes.

Mr. PECORA. I offer them in evidence.

The CHAIRMAN. Let them be admitted.

(The copies of four certificates of deposit issued by Detroit Trust Co., payable to Ford Motor Co., dated Dec. 29, 1932, were marked, collectively, "Committee Exhibit No. 124, January 31, 1934," received in evidence and the same will be found at the conclusion of today's proceedings.)

Mr. PECORA. Mr. Thomas, were these certificates of deposit that have just been marked in evidence "Committee Exhibit 124" actually issued on the date which they bear, namely, December 29, 1932?

Mr. THOMAS. They should have been.

Mr. PECORA. Were they? We know they should have been.

Mr. THOMAS. So far as I know.

Mr. PECORA. Will you look at this reproduction of the audit record of certificate of deposit register of the Detroit Trust Co. and tell me if you recognize it to be a true and correct duplicate or photostatic reproduction of such audit record [exhibiting a paper to the witness]?

Mr. THOMAS (after examining paper). Yes; it appears to be.

Mr. PECORA. Is there anything on that audit record that you have looked at which indicates that on January 3, 1933, there were deposits made to the credit of the Ford Motor Co. aggregating \$2,500,000?

Mr. THOMAS. Yes, sir.

Mr. PECORA. Those deposits are represented by certificates of deposit, are they not?

Mr. THOMAS. Yes, sir.

Mr. PECORA. Do they not correspond to these four certificates of deposit that have been marked in evidence as "Committee's Exhibit No. 124"?

Mr. THOMAS. In amounts, you mean?

Mr. PECORA. In amounts and in every other way.

Mr. THOMAS. Yes.

Mr. PECORA. Does not that indicate that although these four certificates of deposit are dated December 29, 1932, they were not actually issued until January 3, 1933, and were dated back to December 29, 1932?

Mr. THOMAS. Yes; it does.

Mr. PECORA. Why was that done, Mr. Thomas?

Mr. THOMAS. I don't believe I can tell you.

Mr. PECORA. You were the treasurer of the trust company on those dates, and you say you cannot tell me about that?

Mr. THOMAS. I certainly cannot. I do not know why they would be dated December 29, if they were not issued on that date, unless we were informed that the deposit was to be made with us on the third, and we dated them that date for interest purposes.

Mr. PECORA. That is exactly what you did do, is it not?

Mr. THOMAS. It may have been.

Mr. PECORA. Why was that done?

Mr. THOMAS. I presume so that there would be a correct computation of interest.

Mr. PECORA. Wasn't it done so that the Ford Motor Co. would not lose a single penny in interest on its deposit account in connection with the accommodations it had lent itself to, to both the Detroit Trust Co. and the First National Bank, Detroit?

Mr. THOMAS. I do not know that.

Mr. PECORA. You do not know that.

Mr. THOMAS. I do not think, to my knowledge, that the Ford Motor Co. was ever solicited in this transaction at all, as far as making the withdrawal or the deposit is concerned. As far as I know the Ford Motor Co. sent these certificates in to be cashed on the 29th of December.

Mr. PECORA. Sent which certificates in to be cashed?

Mr. THOMAS. The ones that were cashed.

Mr. PECORA. Those are the ones already in evidence.

Mr. THOMAS. Yes.

Mr. PECORA. Then, on January 3, 1933, these certificates of deposit last offered in evidence were issued by the Detroit Trust Co., payable on demand to the Ford Motor Co., for the aggregate amount of \$2,500,000, and dated back to December 29, 1932, were they not?

Mr. THOMAS. Yes; for interest purposes.

Mr. PECORA. Why should the Ford Motor Co. get interest from December 29, if all these transactions were in good faith?

Mr. THOMAS. I do not know that I can answer that, unless they had an arrangement with the bank whereby the bank did not pay them interest on their deposit while they had the proceeds of it.

Mr. PECORA. With what officer of the bank would such an arrangement be made?

Mr. THOMAS. It would probably be the cashier.

Mr. PECORA. How about the president?

Mr. THOMAS. I do not know.

Mr. PECORA. Is Mr. Browning here?

Mr. BROWNING. Yes, sir.

Mr. PECORA. Would you come forward, please, Mr. Browning? He has not been sworn. I will ask that Mr. Browning be sworn.

The CHAIRMAN. Mr. Browning, you solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matters now under investigation by the committee, so help you God?

Mr. BROWNING. I do.

TESTIMONY OF McPHERSON BROWNING, PRESIDENT DETROIT TRUST CO., DETROIT, MICH.

Mr. PECORA. Give your full name, address, and business or occupation.

Mr. BROWNING. McPherson Browning, president Detroit Trust Co.; home address, 2940 Iroquois Avenue, Detroit.

Mr. PECORA. Mr. Browning, how long have you been connected with the Detroit Trust Co. in any capacity whatsoever?

Mr. BROWNING. Since 1906.

Mr. PECORA. You have been in its service continuously since that time?

Mr. BROWNING. Yes, sir.

Mr. PECORA. Right up to the present time?

Mr. BROWNING. Yes, sir.

Mr. PECORA. When did you become the president of the Detroit Trust Co.?

Mr. BROWNING. In 1927.

Mr. PECORA. And served continuously as such?

Mr. BROWNING. Yes, sir.

Mr. PECORA. And are still the president?

Mr. BROWNING. Yes, sir.

Mr. PECORA. I have noticed you have been in attendance at the hearings before this committee held yesterday and today. I presume you have heard the testimony that has been given at those sessions by the preceding witnesses, Mr. Stone and Mr. Thomas.

Mr. BROWNING. I have.

Mr. PECORA. Have you heard the testimony they have given this afternoon with regard to the certificates of deposit that have been put in evidence here?

Mr. BROWNING. I got most of it, I think. Sometimes I could not quite understand.

Mr. PECORA. Can you throw any more light on the transactions evidenced by those certificates of deposit than either Mr. Stone or Mr. Thomas has?

Mr. BROWNING. No; I cannot, Mr. Pecora. My first knowledge of the transaction was after it had taken place, when Mr. Thomas told me of the transactions.

Mr. PECORA. What did he tell you about it?

Mr. BROWNING. He told me that the Ford Motor Co. had withdrawn the \$2,500,000 of certificates of deposit; that the First National Bank had made a deposit with us for a like amount; and that afterward the First National Bank had cashed its certificate of deposit, and the Ford Motor Co. had placed the deposit back with the Trust Co.

Mr. PECORA. Did he say on what date the Ford Motor Co. had placed its \$2,500,000 deposit back with the Trust Co.?

Mr. BROWNING. I do not remember that; no, sir.

Mr. PECORA. It appears, according to the four certificates of deposit last offered in evidence, that that was done on January 3, 1933.

Mr. BROWNING. Correct.

Mr. PECORA. But those certificates of deposit issued by the Trust Co. were dated back to December 29, 1932.

Mr. BROWNING. Yes; so I have heard you say.

Mr. PECORA. And that entitled the Ford Motor Co. to interest on the deposit from December 29, 1932, although on that date it had drawn out, according to these other certificates of deposit, \$2,500,000, and it deposited it in the First National Bank, Detroit. Is not that so?

Mr. BROWNING. Yes.

Mr. PECORA. Then why were these last four certificates of deposit issued on January 3, 1933, dated back to December 29, 1932?

Mr. BROWNING. This afternoon is the first time that I have heard that fact mentioned, as to the dating back of the certificates.

Mr. PECORA. Can you not think of any explanation as to why it was done?

Mr. BROWNING. No, sir; except what appears on its face. It was so the Ford Motor Co. would draw interest from December 29. I can think of no other explanation.

Mr. PECORA. What circumstances would entitle the Ford Motor Co. to draw interest from December 29, 1932, if on that date there was a withdrawal in good faith of its deposit funds to that amount from the Detroit Trust Co. and a deposit in the First National Bank, Detroit?

Mr. BROWNING. Mr. Pecora, I do not know. As I say, I knew nothing of the transaction. I do not know the reasons for the transaction. I knew of it after it had occurred and had been completed. The reasons for it I do not know.

Mr. PECORA. It was rather an extraordinary transaction, or series of transactions, was it not?

Mr. BROWNING. Well—

Mr. PECORA. Or would you say that they were not extraordinary, because they were in keeping with the practices and customs of the trust company?

Mr. BROWNING. No; I would not say in keeping with the practices of the trust company, but I do think that over the end of the year there are very apt to be transactions—

Mr. PECORA. For what reason? Tell us frankly.

Mr. BROWNING. Sometimes for tax reasons.

Mr. PECORA. What was the reason for these extraordinary transactions over the end of the year?

Mr. BROWNING. Sometimes for tax purposes.

Mr. PECORA. Were these transactions in that category?

Mr. BROWNING. I have no idea, sir.

Mr. PECORA. For what other reasons would these transactions occur over the end of the year?

Mr. BROWNING. Of course, if I may say this, I have read the testimony regarding similar circumstances that occurred with the Guardian Group. I have read their testimony. That is the only other reason I can think of.

Mr. PECORA. That other reason was for window-dressing purposes, was it not?

Mr. BROWNING. I did not understand it so.

Mr. PECORA. What did you understand it to be, if you read that testimony?

Mr. BROWNING. As I understand the testimony, it was so the Ford Motor Co. would not show such a large amount of cash on hand in its annual statement.

Mr. PECORA. But the Ford Motor Co. did show that cash on hand, by having it taken out of the Detroit Trust Co. on December 29 and on the same day deposited to its credit in the First National Bank, Detroit. Isn't that so?

Mr. BROWNING. Mr. Pecora, what was done with that money after it got to the First National Bank, of course, I do not know.

Mr. PECORA. Do not these various certificates of deposit put in evidence here this afternoon suggest the reason, Mr. Browning?

Mr. BROWNING. No, sir. Frankly, I do not know.

Mr. PECORA. You are just as much in the dark about the reason for it as you were before you heard this testimony this afternoon?

Mr. BROWNING. I am; yes, sir.

The CHAIRMAN. Did the holidays have anything to do with it?

Mr. BROWNING. Oh, no; no, sir.

The CHAIRMAN. Christmas and New Year coming together?

Mr. BROWNING. Except, of course, this was an end-of-the-year transaction.

Senator COUZENS. What officer in the Trust Co. would be likely to arrange this sort of transaction?

Mr. BROWNING. Mr. Thomas.

Senator COUZENS. Mr. Thomas states that he does not know anything about why it happened this way. Who does know, in the Trust Co., why it happened this way?

Mr. BROWNING. Senator, I do not believe anyone would know if Mr. Thomas did not know. As I understand it, the arrangements for withdrawal was made with him.

Mr. PECORA. Mr. Thomas says it must have been with some other officer of the bank.

Mr. BROWNING. Some officer of the bank?

Mr. PECORA. Of the Trust Co.

Mr. THOMAS. Oh, no. Your question was, What officer of the bank handled it?

Senator COUZENS. If you handled it for the Trust Co, what did you know about why it was done this way?

Mr. THOMAS. Just what I have said.

Senator COUZENS. What was it?

Mr. THOMAS. That we simply got the instructions to cash those certificates of deposit and transfer the funds over to the First National. You indicated that the Ford Motor Co. was doing it for window dressing.

Senator COUZENS. Oh, no.

Mr. PECORA. No.

Senator COUZENS. That is a mistake.

Mr. THOMAS. I understood that. There would not be any object in their withdrawing it if they were trying to bolster our deposits.

Senator COUZENS. No; but we have had no explanation from any officer of the Detroit Trust Co. as to why these certificates of deposit were dated December 29, when the money was not redeposited until January 3, 1933. Can no officer here explain that?

Mr. THOMAS. Not any more than I have explained.

Mr. PECORA. Your explanation does not explain, does it? What you call an explanation is not an explanation.

Mr. THOMAS. I do not know any more about it than that, unless, as I said, if the bank arranged with the Ford Motor Co. not to pay them interest on their deposit, I can see why we would date those back to December 29.

Mr. PECORA. Do you know how much the Detroit Trust Co. lost by way of interest that it credited to the deposit account of the Ford Motor Co. for the period between December 29, 1932, and January 3, 1933?

Mr. THOMAS. I do not.

Mr. PECORA. I understand it figures up to over \$1,000, at the rate of $3\frac{1}{2}$ percent. The Detroit Trust Co. was not making a present to anybody of that sum, was it, of its own volition?

Senator COUZENS (after a pause). Can you tell me when that $2\frac{1}{2}$ million was withdrawn by the First National? You know the First National put in $2\frac{1}{2}$ million dollars on December 29, 1932?

Mr. THOMAS. Yes.

Senator COUZENS. When was that withdrawn?

Mr. THOMAS. I think it was withdrawn when we received the deposit back from the Ford Motor Co.

Senator COUZENS. That would be January 3?

Mr. THOMAS. Yes, sir.

Senator COUZENS. So in effect your record would show $2\frac{1}{2}$ million dollars from the Ford Motor Co. as of December 29, 1932, and $2\frac{1}{2}$ million dollars from the First National Bank as of January 1, 1933, when you issued your statement, so that your deposits would be added $2\frac{1}{2}$ million dollars?

Mr. THOMAS. Oh, no.

Senator COUZENS. Then why not?

Mr. THOMAS. Because the $2\frac{1}{2}$ million from the Ford Motor Co. and the First National Bank were not both included on our statement in any 1 day.

Senator COUZENS. According to the certificates of deposit it did. You would not have certificates of deposit out in the public's hands showing a deposit as of December 29, 1932, when there was no such deposit, would you?

Mr. THOMAS. No; I don't think they were out in the public's hands, because the record indicates, the record shows, that they were not in the statement of the company until January 3.

Senator COUZENS. The effect was, though, that when the Ford Motor Co. had these certificates of deposit on January 3, 1933, which it is assumed is the day they received them, they had a record in their hand at that time showing that they had $2\frac{1}{2}$ million dollars from the Detroit Trust Co. on December 29, did they not?

Mr. THOMAS. Well, you see, these are dated the 29th, but I do not think the record would show it. I do not think they would record it in their books as of December 29.

Senator COUZENS. I am not talking about their books. The actual possession of a C.D. dated December 29, 1932, and their possession on the 1st day of January 1933, or the first week, would be substantial proof that they had that amount of money in the Detroit Trust Co. on December 29, 1932, would it not?

Mr. THOMAS. Maybe so, but I don't think they had the certificates in their hands until January 3.

Senator COUZENS. Well, I say, on January 3, 1933, when they had these certificates in their possession, the mere possession of those certificates was evidence that they had that money there on December 29, 1932, was it not?

Mr. THOMAS. Presumably so.

Senator COUZENS. What is your answer?

Mr. THOMAS. Presumably so; yes.

Mr. BROWNING. May I see the certificate of deposit under discussion?

Mr. PECORA. Certainly [handing document to Mr. Browning].

Senator COUZENS. Who signed that?

Mr. PECORA. Who signed those last four certificates of deposit offered in evidence?

Mr. THOMAS. Signed by Bruce Morehouse, the C.D. teller, and Mr. Thurman.

Mr. PECORA. Who was Mr. Thurman?

Mr. THOMAS. An assistant treasurer.

Mr. PECORA. Did Mr. Thurman, Mr. Thomas, issue these four certificates of deposit last offered in evidence on your instructions? You were his immediate superior?

Mr. THOMAS. I was his superior, but I do not recall that I specifically instructed him to issue those certificates. They may have come into the C.D. cage. No, this is the issuance of the certificates?

Mr. PECORA. Yes.

Mr. THOMAS. Well, I do not recall whether I instructed him to or not. When we got the deposit back from the Ford Motor Co. it would come into the cage possibly or to Mr. Thurman, and he would issue the certificates.

Mr. PECORA. According to the evidence so far presented here about these transactions, it appears that some time in 1928 and in 1929 the Ford Motor Co. deposited sums aggregating 2½ million dollars in the Detroit Trust Co., for which it received four certificates of deposit aggregating that amount, which have been offered in evidence. It further appears from the evidence that on December 29, 1932, those four certificates of deposit were presented for payment in behalf of the Ford Motor Co. to the Detroit Trust Co. by the First National Bank, Detroit.

Mr. THOMAS. I don't think they were presented by the First National Bank. I think they were presented by the Ford Motor Co.

Mr. PECORA. Well, they were deposited by the Ford Motor Co. in the First National Bank, Detroit, weren't they?

Mr. THOMAS. Not to my knowledge. As far as I know, they were sent to the Detroit Trust Co. to be cashed.

Mr. PECORA. By whom?

Mr. THOMAS. Ford Motor Co.

Mr. PECORA. And did the Detroit Trust Co. cash them?

Mr. THOMAS. Yes.

Mr. PECORA. And did it cash them out of funds amounting to \$2,500,000 that it received on that same day from the First National Bank, Detroit?

Mr. THOMAS. Not necessarily out of the same funds.

Mr. PECORA. Well, it could not have cashed them unless it received those funds, could it?

Mr. THOMAS. I believe so.

Mr. PECORA. You believe so?

Mr. THOMAS. According to the statement we had \$2,700,000 cash on hand.

Senator COUZENS. When you paid those certificates you withdrew the money from somewhere to pay them. From where did you withdraw it if you did not withdraw it from the First National Bank?

Mr. THOMAS. That is probably where we did withdraw it, but the question was whether it was the same funds.

Senator COUZENS. It would not have been otherwise, because you did not have that amount of money in the First National Bank at that time.

Mr. THOMAS. Well, we had a total of \$2,700,000, I believe, on that date.

Senator COUZENS. Yes; but a large part of it was fiduciary trust funds.

Mr. THOMAS. Not of that amount; no. That was in addition to the fiduciary accounts.

Mr. PECORA. Mr. Browning, while you are on the stand let me ask you who is the chairman of the board of the Detroit Trust Co. now?

Mr. BROWNING. Mr. Harry J. Fox.

Mr. PECORA. And when did he become chairman of the board?

Mr. BROWNING. December, either 1st or 11th, I don't recollect.

Mr. PECORA. December of what year?

Mr. BROWNING. Of 1933.

Mr. PECORA. That is within the past month or so?

Mr. BROWNING. Within the last 2 months; yes.

Mr. PECORA. Now, you knew Mr. Harry J. Fox, didn't you, for some time?

Mr. BROWNING. I have.

Mr. PECORA. And you knew that for some time previous to his becoming chairman of the board of the Detroit Trust Co. he had been a director of the First National Bank, Detroit?

Mr. BROWNING. Well, he resigned as a director of the First National Bank, I believe, at the end of 1931. I do not think he was a director during the year 1932.

Mr. PECORA. Was it known as of December 20, 1933, that Mr. Fox was indebted to the First National Bank for loans in the aggregate sum of \$280,000 plus?

Mr. BROWNING. I didn't know it.

Mr. PECORA. Of which \$191,000 plus had been charged off?

Mr. BROWNING. This is the first intimation I have had.

Mr. PECORA. Mr. Browning, you were a director of the First Wayne National Bank in 1931, weren't you?

Mr. BROWNING. I was elected at the very end of 1931.

Mr. PECORA. That was at the time of the consolidation of the Peoples Wayne County National Bank with the First National Bank?

Mr. BROWNING. That is correct. December 31, I think, was the date.

Mr. PECORA. Was Mr. Fox a director at that time of that bank?

Mr. BROWNING. I know that he was not a member of the board during the time I was a member of the board. I don't know what date his resignation took effect.

Mr. PECORA. Weren't you as a director of that bank familiar with the loan account of Mr. Fox?

Mr. BROWNING. I was not.

Mr. PECORA. Were you familiar with the loan accounts carried with that bank by other officers and directors of the bank?

Mr. BROWNING. No; I was not.

Mr. PECORA. Weren't the facts of those loans to officers and directors made known to the directors?

Mr. BROWNING. I don't remember seeing any list of officers' and directors' loans. I know that at the monthly meetings of the board—of course, I was only a member of the board for about 1 month—at the monthly meetings of the board a list of the loans were placed before the directors. I have no recollection of his name occurring on that list. It may have occurred there. If it did, I have no recollection of it.

Mr. PECORA. Are you familiar with the charge-offs aggregating 191,000-odd dollars in this Fox loan account?

Mr. BROWNING. No, sir.

Mr. PECORA. Made during the years 1931, '32, and '33?

Mr. BROWNING. No, sir. Today is the first day I have had an intimation of it.

Mr. PECORA. Well, as a director of the bank didn't you pass on these charge-offs?

Mr. BROWNING. I have no recollection of passing on them, Mr. Pecora, or their ever having been brought up before the board. If they were, I have no recollection of it.

Mr. PECORA. I think that is all.

Mr. STONE. Just for today?

Mr. PECORA. If we want you again, we will notify you. I do not apprehend at this time that we will need you.

Mr. BROWNING. You will give us 24 hours' notice?

Mr. PECORA. Yes.

The CHAIRMAN. These witnesses will be excused for the present. The committee will recess until 10:30 tomorrow morning.

(Accordingly, at 4:15 p.m., the committee adjourned until 10:30 a.m. on the following morning.)

EXHIBIT H-1.—*Detrol Trust Co., certificates of participation as of Jan. 1, 1934*

Exhibit no.	Series	Issue no.	Date of issue	Life period of mortgage (years)	Volume issued	Amount sold to trusts	Amount in default	
							Principal	Interest
H 1-1	A	4225	Jan. 1, 1927	7	500,000	60,000	\$177,964.91	\$12,877.40
2	B	4248	Feb. 1, 1927	7	500,000	92,600	101,357.81	9,941.15
3	C	4284	Mar. 1, 1927	7	700,000	88,700	98,855.75	10,740.56
4	D	4340	Apr. 1, 1927	7	1,000,000	206,500	216,064.69	27,329.91
5	E	4390	May 2, 1927	7	800,000	257,500	245,347.69	22,605.84
	F	4453	June 1, 1927	7	1,000,000	141,000	236,203.35	29,680.42
	G	4502	July 1, 1927	6½	1,000,000	213,000	253,833.72	38,306.34
	H	4554	Aug. 1, 1927	6½	800,000	167,000	224,628.15	20,955.97
	I	4630	Sept. 1, 1927	6½	800,000	71,000	193,796.74	20,384.38
10	J	4666	Oct. 1, 1927	6½	800,000	88,500	237,391.30	27,275.40
	K	4729	Nov. 1, 1927	6½	500,000	71,400	104,761.72	13,632.96
	L	4778	Dec. 1, 1927	6½	500,000	95,500	145,429.97	17,590.41
	M	4838	Jan. 1, 1928	6½	500,000	145,000	175,912.78	19,870.60
	N	4918	Feb. 1, 1928	6½	500,000	97,500	136,023.98	11,694.00
	O	4955	Mar. 1, 1928	6	250,000	76,700	61,236.48	6,078.67
	P	4998	Apr. 1, 1928	6	200,000	72,700	90,852.06	7,809.99
	Q	5091	May 1, 1928	6	350,000	102,500	118,698.09	11,019.45
	R	5153	June 1, 1928	6½	600,000	160,500	186,041.22	23,617.24
	S	5191	July 1, 1928	6	700,000	134,400	279,806.53	31,562.68
	T	10029	Aug. 1, 1928	6	1,000,000	248,600	315,975.02	24,823.65
	U	10103	Sept. 1, 1928	6	1,000,000	160,400	345,494.68	30,855.03
	V	10119	Oct. 1, 1928	5½	1,000,000	149,200	306,081.68	31,591.65
	W	10184	Nov. 1, 1928	5½	1,000,000	93,000	290,526.47	34,226.45
	X	10277	Dec. 1, 1928	5½	1,000,000	202,300	283,442.80	38,803.80
	Y	10350	Jan. 1, 1929	5½	1,000,000	150,500	302,244.10	42,643.44
	Z	10440	Mar. 1, 1929	5	1,000,000	377,500	286,520.08	30,340.86
A 1-26	A-2	10607	June 1, 1929	5	500,000	61,500	37,669.25	19,870.98
27	B-2	10682	July 1, 1929	5	500,000	93,100	157,262.51	16,543.97
28	C-2	10921	Dec. 1, 1929	5½	500,000	172,100	134,156.74	15,244.00
29	D-2	11039	Feb. 1, 1930	4½	500,000	106,600	193,858.96	17,342.78
30	E-2	11164	Apr. 1, 1930	4½	1,000,000	173,000	333,628.58	40,168.58
31	F-2	11231	May 8, 1930	4	1,000,000	185,700	132,152.27	38,781.92
32	G-2	11428	Sept. 1, 1930	4	500,000	355,300	164,368.55	18,101.97
33	H-2	11647	Jan. 2, 1931	3½	500,000	355,100	166,860.31	17,439.81
34	I-2	11777	Apr. 1, 1931	3½	1,000,000	333,100	175,474.86	43,796.94
H 1-35					25,000,000	5,589,500	6,918,693.56	823,639.74

EXHIBIT H-1.—*Detroit Trust Co., certificates of participation as of Jan. 1, 1934—Continued*

Exhibit no.	Series	Present market value of certificates	Amount of commission or service charge	Number of mortgages foreclosed	Amount carried as real estate herein	Mortgage principal balance outstanding	Amount of certificates past due	Amount of interest on certificates past due
H 1-1	A	None	\$15,000.00	8	\$90,701.08	\$237,890.83	\$398,000	\$27,060.00
2	B	None	15,000.00	8	80,666.09	238,697.56	287,000	15,067.50
3	C	None	21,000.00	19	89,553.87	350,436.75	404,000	29,270.00
4	D	None	30,000.00	12	70,629.49	634,713.08	569,500	45,660.00
5	E	None	24,000.00	11	64,563.31	500,223.60	593,500	35,878.50
6	F	None	30,000.00	23	109,164.31	571,396.85	710,500	44,761.50
7	G	None	30,000.00	26	134,823.60	577,109.58	706,000	45,537.00
8	H	None	24,000.00	23	104,404.57	472,619.56	598,000	29,820.00
9	I	None	24,000.00	26	131,272.12	438,367.74	565,000	40,156.50
10	J	None	24,000.00	15	112,868.16	458,250.12	574,000	34,727.00
11	K	None	15,000.00	14	69,208.59	305,700.87	378,000	23,388.75
12	L	None	15,000.00	21	85,738.64	336,709.19	185,000	23,432.10
13	M	None	15,000.00	13	65,855.14	305,433.70	174,000	24,353.99
14	N	None	15,000.00	26	91,108.92	279,349.07	70,000	18,143.12
15	O	None	7,500.00	7	36,816.20	151,220.88	110,000	10,927.50
16	P	None	3,662.00	3	16,848.49	140,827.06	78,000	8,930.00
17	Q	None	3,500.00	12	60,135.36	218,398.09	102,000	15,408.75
18	R	None	6,000.00	17	103,491.38	390,992.74	163,000	28,493.75
19	S	None	7,000.00	8	53,409.90	504,631.53	260,000	33,780.00
20	T	None	10,000.00	20	96,408.17	738,730.02	175,000	40,521.25
21	U	None	10,000.00	28	137,201.79	640,506.28	175,000	44,536.25
22	V	None	10,000.00	24	109,025.02	630,892.89	189,000	46,254.99
23	W	None	10,000.00	18	80,877.26	715,541.49	185,500	44,357.49
24	X	None	10,762.00	27	141,333.21	704,517.80	185,000	47,501.56
25	Y	None	15,162.00	25	121,329.62	697,266.10	213,000	46,251.11
26	Z	None	19,166.00	27	120,925.96	711,601.75	(1)	49,908.80
A 1-26	A-2	None	9,750.00	11	50,630.00	390,792.50	(1)	24,692.25
27	B-2	None	9,750.00	21	86,423.43	354,382.15	(4)	26,420.62
28	C-2	None	7,337.25	12	31,692.13	355,589.84	(4)	25,392.00
29	D-2	None	9,990.00	16	60,534.75	389,071.00	(4)	22,741.25
30	E-2	None	19,954.00	34	108,621.74	788,320.91	(4)	49,610.00
31	F-2	None	20,000.00	42	127,671.41	798,555.82	(4)	50,160.00
32	G-2	None	10,000.00	13	51,083.48	406,443.55	(3)	26,276.24
33	H-2	None	10,000.00	13	46,783.75	420,987.08	(3)	33,959.75
34	I-2	None	20,132.37	22	79,370.54	848,948.67	(4)	51,644.49
H 1-35		None	502,575.62	-----	2,981,127.44	6,756,043.65	8,176,700.00	1,168,104.01

¹ Mature 1935.² Mature 1936.³ Mature 1937.

COMMITTEE EXHIBIT No. 111—JANUARY 31, 1934

(This exhibit consists of a photostat of a certificate of deposit dated Aug. 8, 1931, issued by Detroit Trust Co. to Peoples Wayne County Bank, of Detroit, for \$4,500,000, and is on file with the committee.)

COMMITTEE EXHIBIT No. 112—JANUARY 31, 1934

(This exhibit consists of a certificate of deposit issued Aug. 8, 1931, by the Detroit Trust Co. for \$1,700,000, payable to First National Bank, in Detroit, and is on file with the committee.)

COMMITTEE EXHIBIT No. 113—JANUARY 31, 1934

(This exhibit consists of a photostat of a certificate of deposit issued Aug. 8, 1931, by the Detroit Trust Co. for \$500,000, payable to Detroit Savings Bank, and is on file with the committee.)

COMMITTEE EXHIBIT No. 117, JANUARY 31, 1934

Detroit Trust Company certificates of deposit held by First National Bank, Detroit

Date	Balance	Detroit Trust Company fiduciary account at First National Bank, Detroit	Date	Balance	Detroit Trust Company fiduciary account at First National Bank, Detroit
1931			1932—Con.		
March 25.....	\$1,100,000.00	-----	April 1.....	5,000,000.00	3,720,000.62
April 1.....	1,100,000.00	-----	May 1.....	5,000,000.00	3,947,394.38
May 1.....	1,100,000.00	-----	June 1.....	5,000,000.00	3,640,849.21
June 1.....	1,100,000.00	-----	July 1.....	5,000,000.00	4,392,904.06
July 1.....	1,100,000.00	-----	August 1.....	5,000,000.00	3,729,087.42
August 1.....	1,100,000.00	1 \$6,200,000.00	September 1.....	5,000,000.00	3,220,680.62
September 1.....	7,300,000.00	6,200,000.00	October 1.....	5,000,000.00	3,610,116.87
October 1.....	7,300,000.00	6,200,000.00	November 1.....	5,000,000.00	4,172,131.90
November 1.....	7,300,000.00	6,200,000.00	December 1.....	5,000,000.00	3,630,291.36
December 1.....	7,300,000.00	6,200,000.00			
1932			1933		
January 1.....	9,440,624.21	6,200,000.00	January 1.....	8,150,000.00	3,876,150.21
February 1.....	6,300,000.00	4,398,467.87	February 1.....	4,865,000.00	3,625,042.22
March 1.....	6,300,000.00	4,570,775.36	February 11.....	4,500,000.00	3,121,449.52

¹ August 8.

The amounts shown in the balance column are the balances of all Certificates of Deposit outstanding at that time.

Detroit Trust Company Fiduciary Account at First National Bank was opened on Aug. 8, 1931, and since that time there have been total deposits to this account in the amount of approximately \$56,000,000.

COMMITTEE EXHIBIT No. 119—JANUARY 31, 1934

(This exhibit is a photostatic copy of a deposit certificate dated Aug. 2, 1929, payable to Ford Motor Co. in sum of \$1,000,000, and is on file with the committee.)

COMMITTEE EXHIBIT No. 120—JANUARY 31, 1934

(This exhibit is a photostatic copy of certificate of deposit dated Aug. 13, 1928, payable to Ford Motor Co. in sum of \$300,000. It is on file with the committee.)

COMMITTEE EXHIBIT No. 121—JANUARY 31, 1934

(This exhibit is a photostatic copy of certificate of deposit dated Aug. 13, 1928, payable to Ford Motor Co. in sum of \$200,000. It is on file with the committee.)

COMMITTEE EXHIBIT No. 122—JANUARY 31, 1934

(This exhibit is a photostatic copy of certificate of deposit dated Sept. 11, 1929, payable to Ford Motor Co. in the sum of \$1,000,000. It is on file with the committee.)

COMMITTEE EXHIBIT No. 123—JANUARY 31, 1934

(This exhibit is a photostatic copy of certificate of deposit dated Dec. 29, 1932, payable to First National Bank of Detroit in sum of \$2,500,000. It is on file with the committee.)

COMMITTEE EXHIBIT No. 124—JANUARY 31, 1934

(This exhibit consists of four certificates of deposit issued by Detroit Trust Co., payable to Ford Motor Co., dated Dec. 29, 1932, for \$1,000,000, \$1,000,000, \$500,000, and \$250,000, respectively, and they are on file with the committee.)

STOCK EXCHANGE PRACTICES

THURSDAY, FEBRUARY 1, 1934

UNITED STATES SENATE,

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY.

Washington, D.C.

The subcommittee met at 10:30 a.m., pursuant to adjournment on yesterday, in room no. 301 of the Senate Office Building, Senator Duncan U. Fletcher, presiding.

Present: Senators Fletcher (chairman), Costigan, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee.

The CHAIRMAN. The subcommittee will come to order. Mr. Pecora, you may proceed.

Mr. PECORA. Mr. Stair.

The CHAIRMAN. Mr. Stair, please come forward to the committee table, stand, hold up your right hand, and be sworn:

You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. STAIR. I do.

TESTIMONY OF EDWARD DOUGLAS STAIR, NEWSPAPER PUBLISHER, DETROIT, MICH.

Mr. PECORA. Mr. Stair, will you give your full name, address, and business or occupation to the committee reporter for the record?

Mr. STAIR. My name is Edward Douglas Stair. My principal occupation is that of publisher of a newspaper. My address is no. 8330 East Jefferson Ave., Detroit, Mich.

Mr. PECORA. Mr. Stair, were you connected at any time with an organization known as the Detroit Bankers Co.?

Mr. STAIR. Yes, sir.

Mr. PECORA. When did you first become connected with that company?

Mr. STAIR. Well, do you mean as an officer or as a stockholder?

Mr. PECORA. First, as an officer, or director.

Mr. STAIR. I became a director in—well, I wouldn't say whether it was the latter part of 1931 or the first part of 1932. I was not a director in the early history of the company.

Mr. PECORA. Weren't you a director of the Detroit Bankers Co. in the early part of 1930?

Mr. STAIR. Well, I can't remember just when I became a director.

Mr. PECORA. Do you recall when the Detroit Bankers Co. was incorporated?

Mr. STAIR. I recall that.

Mr. PECORA. How long after that date did you first become a director of it?

Mr. STAIR. The company was organized, and a majority of the officers were from the officers of the banks. I believe there were only four laymen on the board.

Mr. PECORA. The evidence here shows that the Detroit Bankers Co. was incorporated on January 8, 1930.

Mr. STAIR. Yes.

Mr. PECORA. Now, how long after that date did you become for the first time a director of that company?

Mr. STAIR. I think it was in 1931.

Mr. PECORA. I beg pardon?

Mr. STAIR. I say, I think it was in 1931.

Mr. PECORA. I have before me——

The CHAIRMAN (interposing). Do you mind sitting a little closer to the microphone there before you on the table, Mr. Stair?

Mr. STAIR. Certainly.

Mr. PECORA. I have before me a copy of the printed annual report to stockholders, issued by the Detroit Bankers Co. for the year 1930, and it lists your name as one of the members of the board of directors.

Mr. STAIR. Well, I must have been, then. I do not recall the year; I know that I was not originally a director.

Mr. PECORA. Well, did you continue to serve as a director of the company from the time when you first became a director?

Mr. STAIR. Yes, sir.

Mr. PECORA. Did you at any time become an officer of the Detroit Bankers Co.?

Mr. STAIR. Yes, sir.

Mr. PECORA. What office did you hold in the company?

Mr. STAIR. I was prevailed upon to accept the office of president, I think it was in June of 1932.

Mr. PECORA. You succeeded Mr. John Ballantyne in that office, did you?

Mr. STAIR. Yes, sir.

Mr. PECORA. And you continued to serve as president from that time until the receiver was appointed for the Detroit Bankers Co. in March of 1933?

Mr. STAIR. Yes, sir.

Mr. PECORA. When did you first become a stockholder of the Detroit Bankers Co.?

Mr. STAIR. When it was organized.

Mr. PECORA. At the time it was organized, in January of 1930, were you an officer or director of any of the banks that became units of that company?

Mr. STAIR. I was a director of the First National Bank, and also of the Detroit Trust Co.

Mr. PECORA. And both of those banks were among the five original banking units of the company, were they not?

Mr. STAIR. I believe so.

Mr. PECORA. Had you been a director of the First National Bank in Detroit for many years prior to 1930?

Mr. STAIR. I became a director at the time it was merged with the old Detroit National Bank.

Mr. PECORA. And that was in what year?

Mr. STAIR. I could not tell you, sir.

Mr. PECORA. It was many years ago, wasn't it?

Mr. STAIR. Senator Couzens here can tell you, probably. He has a better memory than I have.

Senator COUZENS. I think it was about 1915 or 1916, if I recall correctly.

Mr. STAIR. At the time of the merger I went from the old Detroit National Bank to the new bank.

Mr. PECORA. And when did you first become a director of the Detroit Trust Co.?

Mr. STAIR. Well, I think it was when it was organized.

Mr. PECORA. And that was about 1901, wasn't it?

Mr. STAIR. It was about 30 years ago.

Mr. PECORA. Now, Mr. Stair, did you take part in any of the discussions and conferences that were held over a period of several months prior to January 8, 1930, in which the subject of the organization of the Detroit Bankers Co. was discussed?

Mr. STAIR. I was not a part of that.

Mr. PECORA. You took no part in any of those conferences?

Mr. STAIR. I wasn't a part of that at all.

Mr. PECORA. Well, as a director of the First National Bank and likewise of the Detroit Trust Co., you knew that plans were in contemplation for the formation of the Detroit Bankers Co., which was designed to acquire all of the capital stock of both the First National Bank and the Detroit Trust Co.

Mr. STAIR. Yes, sir.

Mr. PECORA. Was the matter of the acquisition of the stock of both of those banking institutions by the Detroit Bankers Co. made the subject of discussion among the members of the board of directors of each of those two institutions?

Mr. STAIR. I believe it was.

Mr. PECORA. Prior to the incorporation of the Detroit Bankers Co.

Mr. STAIR. Prior to the merger.

Mr. PECORA. Yes. By "merger" you mean acquisition of the capital stock of those companies by the Detroit Bankers Co.?

Mr. STAIR. Yes, sir.

Mr. PECORA. Well, the term "merger", technically speaking, isn't the term to apply to such a situation. What were the advantages it was considered by the directors of the two banking institutions, in which you sat as a member, would accrue to those banking institutions from the organization of the Detroit Bankers Co. and the exchange of the capital stock of those two banking institutions for the capital stock of the Detroit Bankers Co.?

Mr. STAIR. Well, in the first place, economy of operation; the merging of branch banks and the giving of better service to the larger industrial institutions of the town. The argument was that by having greater capital they could take better care of institutions that needed it in Detroit.

Mr. PECORA. Well, when was this Detroit Bankers Co. first conceived so far as you know, and when was the idea of its organization first discussed with you by anybody?

Mr. STAIR. I haven't any memory for dates, and I couldn't tell you just when it started. Being mildly opposed to a merger I was not drawn into the inner conferences to any great extent. But afterward I agreed that it might be a good thing.

Mr. PECORA. According to evidence before this committee there was sent out, under date of October 5, 1929, a circular letter in behalf of the 5 banks that composed the original banking units of the Detroit Bankers Co., and which letter was addressed to the stockholders of those 5 banks. From the substance of this circular letter it would seem that by October 5, 1929, virtually all the plans had been completed for the formation of the Detroit Bankers Co. and the exchange of its capital stock for the capital stock of the five banks in question. Now, that took place about 3 months prior to the actual incorporation of the company. Did you have any conferences with any officers or directors of any of those 5 banks with regard to the making of the offer embodied in this circular letter to the stockholders of those 5 banks?

Mr. STAIR. I cannot recall it. I probably did, but I cannot recall any definite conversation.

Mr. PECORA. Did you attend with regularity, or with a fair degree of regularity, the meetings of the board of directors of the Detroit Bankers Co. from the time when you first became a member of its board?

Mr. STAIR. Quite regularly, yes, sir; when I was in town.

Mr. PECORA. You knew, I presume, that prior to the actual organization of the Detroit Bankers Co., which was effected on January 8, 1930, a dividend policy had been decided upon by the organizers of the Detroit Bankers Co., which fixed the rate of dividend at 17 percent per annum upon the par value of its capital stock?

Mr. STAIR. I do not recall any such understanding, except as it has been produced here in evidence.

Mr. PECORA. Well, among the evidence produced here is this circular letter addressed to the stockholders of these five original banking units, dated October 5, 1929. Now, you knew of the existence of that letter, and of the use that was made of it, before you read anything about it in connection with the evidence presented to this committee, didn't you?

Mr. STAIR. I probably did.

Mr. PECORA. And according to this letter, dated 3 months or more prior to the date of the organization of the Detroit Bankers Co., dividends at the rate of 17 percent per annum, payable quarterly, were proposed to be paid on the common stock of the Detroit Bankers Co., then not yet in existence. You knew that fact, didn't you?

Mr. STAIR. I probably did.

Mr. PECORA. Now, did you, as a director of the First National Bank and of the Detroit Trust Co., which you said you were, in January of 1930 approve the proposal to organize this Detroit Bankers Co. and have it acquire, upon an exchange of capital stock basis, the capital stock of those five original banks?

Mr. STAIR. I cannot say that I did.

Mr. PECORA. Well, what can you say about it?

Mr. STAIR. Well, I can only say that when the combination was first talked of I was rather opposed to it.

Mr. PECORA. Well, before the corporation became organized did you change your views about it?

Mr. STAIR. I probably did.

Mr. PECORA. Isn't your recollection clear about that?

Mr. STAIR. No; it is not.

Mr. PECORA. You qualify your answer by saying that you probably did.

Mr. STAIR. My recollection is not clear. I was rather a busy man, and advancing years do not improve one's memory.

Mr. PECORA. And you feel that your recollection generally is more or less clouded?

Mr. STAIR. More or less; yes.

Mr. PECORA. Do you regard it as clouded generally with regard to the events transpiring in connection with the Detroit Bankers Co. and its acquisition of the capital stock of these five original banking units?

Mr. STAIR. As to the details it is absolutely cloudy.

The CHAIRMAN. Mr. Stair, what is your age?

Mr. STAIR. Seventy-five.

The CHAIRMAN. Oh! You are young, then. [Laughter.]

Mr. STAIR. Well, I find my memory is slipping.

Mr. PECORA. Now, Mr. Stair, you know, don't you, that in addition to the Detroit Bankers Co. having a board of directors it also had a number of trustees, 12 in number, as I recall it, who held a certain class of stock known as "trustee stock", amounting in the aggregate to 120 shares, of the par value of \$10 per share?

Mr. STAIR. I don't remember that. Does that allude to the governing board or the governing committee?

Mr. PECORA. Well, it alludes to the 12 men who by virtue of their ownership of that trustee stock had the sole voting power in the Detroit Bankers Co. on the matter of election of officers and directors, and also had conferred upon them certain other exclusive rights and powers not shared by the members of the board of directors. Do you recall that?

Mr. STAIR. I do not recall it clearly. But I know there was what I considered a voting trust or governing committee.

Mr. PECORA. Well, was this governing committee, as you call it, composed of the 12 men who had this trustee stock?

Mr. STAIR. I am not sure about that.

Mr. PECORA. Do you recall whether or not you were ever made one of those 12 so-called "trustees"?

Mr. STAIR. I remember that I was made one of the governing committee.

Mr. PECORA. Do you recall whether you were ever made one of the so-called "12 trustees"?

Mr. STAIR. I do not recall it. Was I one of them, Senator Couzens?

Senator COUZENS. No. You were never an officer of the Detroit Trust Co. or of the First National Bank, were you?

Mr. STAIR. No.

Mr. PECORA. Mr. Stair, do you recall the circumstances under which you were elected president of the Detroit Bankers Co. in June of 1932?

Mr. STAIR. Yes.

Mr. PECORA. Will you state what they were?

Mr. STAIR. Well, the expenses of the Detroit Bankers Co. were very heavy, salaries were running around \$40,000 a month. The governing committee wanted to eliminate this expense as far as possible, and they wanted to appoint an honorary president. I objected very seriously to becoming that officer, and said I would not accept the office, but finally I accepted it on the ground that there would be no salary, and no duty except to preside at meetings. I finally accepted it with the very definite understanding that it was an economical move; and subsequent events proved that, because the salary list dropped from \$40,000 a month for the Detroit Bankers Co. down to about \$18,000, within 3 months. And further reductions were then in view.

Mr. PECORA. You succeeded Mr. Ballantyne to that office, did you?

Mr. STAIR. Yes, sir.

Mr. PECORA. Do you know the circumstances under which Mr. John Ballantyne resigned?

Mr. STAIR. Well, I was not a member of the committee that waited upon Mr. Ballantyne. I only know that things were—well, that the cooperation and coordination of the various units were not being made as they wanted them; I mean as the governing committee wanted them made. And Mr. Ballantyne was rather inactive. There was a great deal of friction there.

Mr. PECORA. Do you mean between Mr. Ballantyne and the governing committee?

Mr. STAIR. Yes, sir.

Mr. PECORA. Were you a member of the governing committee?

Mr. STAIR. I was a member of the governing committee.

Mr. PECORA. Have you familiarized yourself with the testimony given by Mr. Ballantyne in recent days before this committee?

Mr. STAIR. I have not.

Mr. PECORA. Have you read any of that testimony given by him?

Mr. STAIR. I have read some of it.

Mr. PECORA. Some of Mr. Ballantyne's testimony?

Mr. STAIR. Yes, sir.

Mr. PECORA. Did you read it from any transcript that you had of the testimony as given here?

Mr. STAIR. I read it as it came through the Detroit Free Press.

Mr. PECORA. And the Detroit Free Press is the newspaper of which you are publisher?

Mr. STAIR. With which I am connected.

Mr. PECORA. And have been for many years?

Mr. STAIR. Well, for 27 years, I think.

Mr. PECORA. Had it come to you, through whatever channel it came, that Mr. Ballantyne testified here over last Friday that at the time he resigned he felt that he could no longer remain and retain his self-respect?

Mr. STAIR. I read that part of it; and I agree with him that he could not remain and retain his self-respect, because he was not performing services.

Mr. PECORA. I do not recall reading that part of it in the Detroit Free Press at any time.

Mr. STAIR. Well, it was there. That is where I read it.

Mr. PECORA. Now, Mr. Ballantyne further testified in connection herewith that one of the reasons that caused him to resign was because he did not have the power which he felt he should have as president, and that he had requested a granting of that power from the governing authorities of the company, but that it had been denied to him. Are you familiar with that part of his testimony?

Mr. STAIR. I understand that. I read that part of it. Mr. Ballantyne was not only the president of the Detroit Bankers Co. but he was chairman of the First National Bank.

Mr. PECORA. Yes.

Mr. STAIR. He had complete authority, authority that had been given by the board to Mr. Ballantyne. But Mr. Ballantyne was not in good health and he was not very active. And Mr. Leyburn came here and criticized us for having too many "up officers", as he called them, men getting \$20,000 a year and up; that we had too many of them, and that they were not being eliminated, and that coordination was not being brought about, and there is where the friction came.

Mr. PECORA. And you felt that Mr. Leyburn's criticism was good?

Mr. STAIR. That it was just.

Mr. PECORA. Was that the reason why, generally speaking, in your opinion at least, Mr. Ballantyne resigned, because of that kind of friction?

Mr. STAIR. I understood from Mr. Ballantyne's testimony, and he used the expression often that he was "on his way out", and that he did not feel like working hard. I do not know what his inner reason was, because I was not, as I say, one of the committee that waited upon him just before he resigned.

Mr. PECORA. Now, Mr. Stair, you know, don't you, that during the years 1930 and 1931, the Detroit Bankers Co. paid dividends on its capital stock at the rate of 17 percent per annum?

Mr. STAIR. Yes.

Mr. PECORA. Based on the par value of the stock?

Mr. STAIR. That was until 1932.

Mr. PECORA. It paid dividends at the old rate during all of the years 1930 and 1931?

Mr. STAIR. Yes.

Mr. PECORA. In 1931 do you recall that the Detroit Bankers Co. received special dividends as the owner of the capital stock of two banking units of the company, namely, the Detroit Trust Co. and the First National Bank in Detroit, and the special dividends that year aggregated, as I recall it, \$3,500,000? Are you familiar with those special dividends?

Mr. STAIR. I was a member of the committee at the time, but I don't recall the details.

Mr. PECORA. You are familiar with the fact that those two institutions declared special dividends?

Mr. STAIR. I am familiar with the fact that they paid 17 percent up until July of 1932, I believe, and the earnings warranted it.

Mr. PECORA. You say the earnings warranted it?

Mr. STAIR. Yes, sir.

Mr. PECORA. That the earnings of the unit banks warranted it?

Mr. STAIR. The earnings of the First National Bank warranted it.

Mr. PECORA. Now, Mr. Stair, as a director of the First National Bank in Detroit, was there brought before you as well as before the other members of the board of the bank, at various times for consideration, reports of examinations of the bank made by national bank examiners under the Comptroller of the Currency?

Mr. STAIR. Yes, sir.

Mr. PECORA. Now, there was an examination of the First National Bank made as of the 25th day of September 1931, and in the report of that examination the examiner makes the following general remarks as appear from a copy of the report of that examination which I have before me:

This report reflects a very unsatisfactory condition, showing the classified losses and doubtful paper aggregating approximately the surplus and profits of the bank, without taking into consideration a large amount of slow assets.

Do you recall discussing that comment or remark of the national bank examination with members of the board of your bank?

Mr. STAIR. I do not recall that particular one.

Mr. PECORA. Do you think that a report of that sort, assuming it was based on fact, indicates a condition in the bank which justified the payment of not only the regular dividend which that bank paid for the year 1931 but the special or extra dividend amounting to 2 million dollars as I recall it, that this bank paid?

Mr. STAIR. Well, the earnings at that time were ample.

Mr. PECORA. Well, do you consider only earnings in determining dividends that should be paid by a bank?

Mr. STAIR. No. The bank was charging off nearly everything that the examiners thought should be charged off. Some of their criticisms were unjust, and they did not know values, they were not familiar with values in the town. For instance, as to one loan there, a Catholic loan, they charged off as no good. But that loan was being taken care of and was in proper shape, and it amounted to about 11 million dollars. There was always a committee appointed, those reports were laid upon the table and a committee appointed, and they generally conferred with the examiners, and went over them very carefully.

Mr. PECORA. Now, in this report of the examination of September 25, 1931, it appears that the examiner had discussed with members of the executive committee of the bank, and with 14 of its officers, various matters that are made the subject of comment or criticism in the report.

Mr. STAIR. I was not at that conference.

Mr. PECORA. You were not at that conference at all?

Mr. STAIR. No. I was at the one following that, in 1932. There was a conference in June of 1932, and Mr. Leyburn and one of its other examiners were present, and he was, apparently, quite gratified that the members of the board were very familiar with everything that had been recommended, and were cooperating. He advised continuing the dividend, by the way.

Mr. STAIR. He advised continuing the dividend, by the way.

Mr. PECORA. I beg pardon?

Mr. STAIR. And he advised continuing the dividend at that time.

Mr. PECORA. Did he advise the payment of the special dividend of 2 million dollars in 1931?

Mr. STAIR. I don't remember that. I am speaking of 1932.

Mr. PECORA. I am speaking first of 1931, because you said a few minutes ago that the declaration of dividends by the Detroit Bankers throughout the years 1930 and 1931 at the rate of 17 percent of the par value of its capital stock was justified by the earnings of the First National Bank alone.

Mr. STAIR. To the best of my knowledge and belief that is true, Mr. Pecora, that they were justified.

Mr. PECORA. Did you know what the condition of the bank was in September 1931? I am referring now to the First National Bank.

Mr. STAIR. I thought I did.

Mr. PECORA. And did you know to what extent there had been an impairment of capital and surplus accounts?

Mr. STAIR. I cannot recall what the impairment was. I knew they were making heavy charge-offs.

Mr. PECORA. Did you know that the classified losses and doubtful paper in September 1931 aggregated approximately the capital, the surplus and profit of the bank?

Mr. STAIR. No; I didn't know that. I don't believe it.

Mr. PECORA. Well, what knowledge have you that prompts you to say you don't believe this remark made by the national bank examiner was based on the fact?

Mr. STAIR. Because his charge-offs were unduly and unwisely heavy, and many of those accounts that he wanted to charge off were good and they have been paid.

Mr. PECORA. Do you know what charge-offs he took into account that time?

Mr. STAIR. No; I don't know that.

Mr. PECORA. I am still talking of the examination of September 1931, not any examination made in 1932.

Mr. STAIR. No.

Mr. PECORA. Let me read further, Mr. Stair, from the general remarks of the examiner in his report of this examination in September 1931 [reading]:

This condition—

That is, the very unsatisfactory condition he already alluded to—has been brought about by two major causes, namely, general business depression and shrinkage in the inflated value of real estate, and poor management.

Now, there was a general business depression, was there not, at that time?

Mr. STAIR. Certainly was.

Mr. PECORA. Which was getting worse throughout the years?

Mr. STAIR. Yes.

Mr. PECORA. Continued to grow worse after the beginning of 1932. And there was a steady shrinkage in the value of real estate?

Mr. STAIR. Yes.

Mr. PECORA. At about that time, was there not?

Mr. STAIR. Yes, sir.

Mr. PECORA. Had been since the beginning of the year at least?

Mr. STAIR. No doubt.

Mr. PECORA. And continued during all of the following year 1932?

Mr. STAIR. Yes, sir.

Mr. PECORA. He also says another major cause of this unsatisfactory condition was poor management. In whom was the management actually vested at that time or exercised?

Mr. STAIR. Mr. Ballantyne.

Mr. PECORA. I will read further now from these general remarks of the examiner in his report of examination made on September 25, 1931:

In the first instance—

That is, referring to the general business depression and shrinkage in real-estate values—

Detroit has suffered along with other large cities from the depression, and more particularly because of the slow condition of the motor industry. The city has a large floating population relying to a great extent on this one industry for its income. When this source of income is materially reduced all other branches of business are to some extent affected. This condition is reflected to a very marked degree in the value of real estate.

Would you say that those observations are based on facts?

Mr. STAIR. They are quite accurate.

Mr. PECORA. What?

Mr. STAIR. They are quite accurate, I would say.

Mr. PECORA. The examiner proceeds further in his general remarks in this report as follows:

Real estate values in 2 years have been cut in half with little activity on this basis. Large buildings have not shown any market whatever. Foreclosures and receiverships are numerous. The Detroit Clearing House Association have agreed to withhold from the market any parcels of real estate received from foreclosure for 6 months, hoping by this procedure to increase values.

Would you say that that was a fair comment?

Mr. STAIR. I would say so.

Mr. PECORA. This comment is also made by the examiner in his report of examination as of September 25, 1931:

With respect to the management of this bank, it is necessary to state that for the past several years the management has been weak. Mr. Dwight Douglas failed to disclose executive ability sufficient to hold the loaning officers in line with prudent credit policies, and as a result each officer carried on his particular department just about as he saw fit, and in most instances totally disregarding the advices of the credit department.

Would you say that that was a fair comment or expression of opinion?

Mr. STAIR. I would not say it was entirely. I think it is exaggerated.

Mr. PECORA. Do you think it is materially exaggerated?

Mr. STAIR. It might have been his judgment that Dwight Douglas was not a good manager, but I don't think the loaning department of the First National Bank was being carried on the way he states.

Mr. PECORA. You don't?

Mr. STAIR. No; the loans came up to the executive committee, and many loans were turned down.

Mr. PECORA. Are you familiar with the fact that some time during the early part of 1932 Mr. Verhelle, who was the comptroller of the Detroit Bankers Co., was requested to make a sort of confidential investigation concerning certain of the loaning policies of the bank?

Mr. STAIR. I don't know of it.

Mr. PECORA. You don't know of it?

Mr. STAIR. Never heard of it before.

Mr. PECORA. Did you, in the course of your reading, through whatever channels it was made available to you, of the evidence presented to this committee in recent days, learn that Mr. Verhelle had made such an examination at the request of both Mr. Mills and Mr. Ballantyne, and had submitted a confidential report or memorandum setting forth the results of his examination and making certain recommendations?

Mr. STAIR. I know of a recommendation that came from Mr. Verhelle to the governing committee or the board of the Detroit bankers, and that a committee was appointed to go into that matter thoroughly, but so far as that being a secret report I didn't know that, because that report was submitted to the—if you are talking about the officers' loans—that report was submitted to the full board.

Mr. PECORA. I did not refer to it as a secret report. I simply referred to it as a confidential report or memorandum.

Mr. STAIR. Yes.

Mr. PECORA. Which is exactly what it is called on its own face—"Private and confidential memorandum."

Mr. STAIR. Well, I knew nothing about the source of that—that is, I knew nothing about the request for the report. But I believe I was present when the report was read.

Mr. PECORA. Before whom was this report read; I mean this private and confidential memorandum?

Mr. STAIR. It was read before the board; the governing board.

Mr. PECORA. Of the Detroit Bankers Co.?

Mr. STAIR. Yes, sir.

Mr. PECORA. What action, if any, was taken on it?

Mr. STAIR. A committee was appointed. If I remember right, Judge Murfin was appointed as chairman of a committee to investigate it. Ex-Senator Newberry, I believe, was another member. I cannot recall all the members. It was a very able committee.

Mr. PECORA. Yes.

Mr. STAIR. And they gave a most thorough examination to that report.

Mr. PECORA. And did they make a report of their review of this memorandum?

Mr. STAIR. They certainly did.

Mr. PECORA. Was it in writing?

Mr. STAIR. I think so. I think it could be found. I am not sure.

Mr. PECORA. Can you put us in possession of a copy of it?

Mr. STAIR. Well, I haven't any copy.

Mr. PECORA. Do you know anyone that has?

Mr. STAIR. No, sir; but I think without a doubt Judge Murfin is in the room, and he can enlighten you on that.

Mr. MURFIN. I have a copy of it.

Mr. MILLS. I also have one.

Mr. PECORA. May I have a copy, then, if you gentlemen have it?

Mr. MILLS. Certainly.

(Mr. Mills came forward and submitted two documents to Mr. Pecora.)

Mr. PECORA. Now, Mr. Wilson Mills has just furnished me with what purport to be photostatic copies or reproductions of reports, two certain reports, made by the gentlemen composing this special committee that you have just referred to, Mr. Stair. Will you look at them and tell me if you can identify them as true and correct copies of reports submitted to the governing committee by the members of this special committee?

Mr. STAIR (after perusing one document). It is a rather severe test on my memory, but I should say this is the exact substance of the report. [And after perusing another document:] Yes, sir; I believe I heard that report read.

Mr. PECORA. I will offer them both in evidence.

The CHAIRMAN. Let them be admitted.

(Report dated July 9, 1932, signed by Truman H. Newberry, Wilson W. Mills, Lawrence K. Butler, and George J. Pipper, was designated "Committee Exhibit No. 125, Feb. 1, 1934", and appears in the record immediately following, where read by Mr. Pecora.)

(Report dated May 25, 1932, signed by Wilson W. Mills, J. O. Murfin, Truman H. Newberry, and Lawrence K. Butler, was designated "Committee Exhibit No. 126, Feb. 1, 1934", and appears immediately following, where read by Mr. Pecora.)

Mr. PECORA. They have been marked in evidence as "Committee's Exhibits 125 and 126", respectively. Exhibit no. 126 precedes the other one in date, and I will read Exhibit No. 126 first [reading]:

The undersigned, being all the members of the committee appointed to investigate and report upon certain charges made against various officers and employees of the bank, have met and thoroughly examined all the items affecting John R. Bodde and Donald N. Sweeny, and report that in our judgment neither of these officers has done anything whatsoever detrimental to the interests of the bank, but, on the contrary, have in all cases mentioned acted in an upright and proper manner under the circumstances.

We wish to take this occasion to say that not only were they innocent of wrongdoing, but the committee have all been impressed with the belief that the written memorandum delivered to the members of the committee, which set forth certain facts, was prepared in such a manner as to show animosity on behalf of the person making the memorandum against these particular officers, and the memorandum was prepared in such a way as to impute wrongdoing without having examined or brought in all of the other existing facts.

A subsequent report or reports will be made upon the balance of the officers and employees mentioned.

May 25, 1932.

WILSON W. MILLS.
J. O. MURFIN.
TRUMAN H. NEWBERRY.
LAWRENCE K. BUTLER.

Then follows this:

I agree with the decision of the committee respecting all items affecting John R. Bodde and Donald N. Sweeny as expressed in the first paragraph hereof.

GEORGE J. ———.

What is that name?

Mr. MILLS. Pipper.

Mr. PECORA. Pipper P-i-p-p-e-r.

The other report marked as "Committee's Exhibit No. 125" is dated July 9, 1932, and reads as follows [reading]:

The undersigned, being members of the committee appointed to investigate and report upon certain charges made against various officers and employees of the bank have, since its report on May 25, 1932, caused to be considered the items against:

Arnot Moody—in view of the fact that Mr. Moody was retired as a vice president of the First Wayne National Bank on July 5, for reasons totally unconnected with the report, and in view of the fact that after that date Mr. Moody will have no official connection with the bank, and further because of his acquaintanceship in the neighborhood of Ecorse, Wyandotte, and River Rouge, we believe he can be of some good will to us, and finally, in view of his long service with the bank, the committee were unanimously of the opinion that there was no good purpose to be accomplished by further investigating the charges. The committee, however, does reserve the right to change this opinion if subsequent developments make it seem advisable to do so.

Rupert Pletsch—the committee is not as well satisfied in connection with Mr. Pletsch's explanation of the Ramm & Co. transaction as it would like to be. However, we are unable to put our finger upon any particular item, and at the same time are far from satisfied that any particular item exists. The loans arose and continued due largely to the methods then in vogue at the Wayne County & Home Savings Bank, and Mr. Julius H. Haass, as well as vice presidents George Wiley and Arthur Loch, were fully aware of the transactions when they were made. Pletsch did not, until after the loans were made, become a small stockholder in Ramm & Co. In view of Mr. Pletsch's long service with the institution and his present good work, the committee unanimously feel that with a severe reprimand to Mr. Pletsch (which has been administered) the matter can rest as it is.

Gilbert W. Beasley—the principal charge made was that he violated a rule of the bank in having a margin account with customers. The charge is unfounded. He did purchase \$130,000 of shares of bank stock and paid for the same to a broker outright, from whence the inference was drawn. Instead of buying this stock, he should have applied the purchase money upon the loan to the bank. The committee felt his action was quite natural under the circumstances, although he has been informed that this must not occur again. He has a salary of \$35,000 a month, of which he pays \$150 to the bank—

There is some mistake there—

and supports five of his family on the remaining \$200.

That is a typographical error, apparently. It should be 350, should it not?

Mr. MILLS. I believe it should be 350.

Mr. PECORA. It reads here "\$35 a month." [Resuming reading:]

The charge of speculation in foreign exchange was properly explained.

Mason Borgman—the charge against him is that he and members of his family have a large number of mortgages delinquent in the mortgage department. There is nothing very unusual in this item, and the entire matter has been turned over to the special loan department to be worked out. He has a salary of \$300 per month. Proper deductions are being made and applied to his loans.

Elvin G. Krebs—this charge involves a loan made by a man named Houser for the joint account of Houser and Krebs at the Central Savings Bank. It appears that the loan was perfectly good when made, and no rule of the Central Savings Bank existed which prevented an officer from borrowing from it. The loan later became a bad one, and the stock, which consisted of American Twist Drill Co. and Reynolds Spring Co., was not sold, although probably it should have been.

Then appears the following typewritten matter which is ruled out apparently by pen and ink. I will read the portion as ruled out:

An additional charge was that Krebs O.K.'d a note for a friend of his named Panyard. This was disproved, inasmuch as Krebs was in the mortgage department of the Central Savings Bank and never approved at any time a commercial or collateral loan.

Then follows this typewritten matter, which is unqualifiedly stated; that is, it has no lead-pencil lining or ink lining out:

He has a salary of \$416.66 a month, and should pay half of the Houser loan. Proper deductions are being made and applied to his loans.

The item against M. D. Irwin and F. E. Morrison were satisfactorily explained.

Henry Roehrig—this man was president of our Wyandotte Bank. He lost his wife and two children, all in violent deaths; and, while the action of Mr. Roehrig in this connection possibly was not above criticism, he has been criticized for his action, which criticism we believe to be sufficient.

D. J. Gonica—the charge against this man is quite similar to that against Roehrig, and the committee has drawn the same conclusions therefrom and taken the same action in connection therewith.

J. O. Murfin did not participate in these matters, owing to illness.

TRUMAN H. NEWBERRY.

WILSON W. MILLS.

LAWRENCE K. BUTLER.

GEORGE J. PIPPER.

Was the matter of investigating all of the things set forth and alluded to in this so-called private and confidential memorandum of Mr. Verhelle delegated to the committee whose names are signed to these two reports?

Mr. STAIR. Yes, sir; I believe it was.

Mr. PECORA. You had nothing to do with any——

Mr. STAIR (interposing). Nothing to do with it.

Mr. PECORA. Investigation of the matters set forth in Mr. Verhelle's report?

Mr. STAIR. No, sir.

Mr. PECORA. Now, I will return to the general remarks set forth in the national bank examiners report of his examination of the First National Bank as of September 25, 1931. The general remarks continue as follows:

About a year ago Mr. Herbert Chittenden was elected president to succeed Mr. Douglas, and it was hoped that he would institute new policies designed to correct this situation. Unfortunately, the new management has utterly failed in bringing about the necessary changes.

In discussing the procedure necessary to bring about the desired correction of this bank with officials of the Detroit Bankers Co., it was decided to take the necessary steps to merge the First National Bank and the Peoples Wayne County Bank under the charter of the First National Bank in Detroit.

Thereupon Mr. Mark Wilson, vice president of the Detroit Bankers Co., went to Washington for a conference with the comptroller. Mr. O. P. Layburn, chief national bank examiner, and myself subsequently had a conference with Mr. John Ballantyne, president, Mr. Mark Wilson, vice president, and the attorneys of the Detroit bankers. At this meeting written authority was given to this department to make an asset examination of the Peoples Wayne County Bank of Detroit. The result of this examination is set forth in a separate report and should be considered in conjunction with this report in determining the merits of the proposed merger.

Are you familiar with those matters referred to in that part of these general remarks, Mr. Stair?

Mr. STAIR. I was not on the committee reporting on that examination. So I am not familiar with it.

Mr. PECORA. You were not one of the officials of the Detroit Bankers Co. with whom the discussion referred to in this portion of the report was had by the national bank examiner?

Mr. STAIR. No, sir.

Mr. PECORA. The general remarks in this report of examination continue as follows:

Through this merger it is proposed that Mr. John Ballantyne be made president of the bank. Mr. Ballantyne is eminently qualified to handle this position because of his sterling character, large banking experience, and acknowledged conservative policies. It is proposed that a very strong man be placed

in charge of loan activities to carry out Mr. Ballantyne's policies, and within all probability this man will be Mr. Mark Wilson. Mr. Wilson is an exceptional choice for this position because of his past experience and forceful character. Numerous changes will take place from this point down, all of which will be intended to create such an organization as to relieve this office from further embarrassment.

That merger was effected on December 31, 1931, was it not, Mr. Stair?

Mr. STAIR. Yes, sir; it was.

Mr. PECORA. And Mr. Ballantyne was made president of the consolidated institution?

Mr. STAIR. He was made president of the Detroit Bankers and remained chairman of the First National Bank.

Mr. PECORA. And was Mr. Mark Wilson made vice president?

Mr. STAIR. He was.

Mr. PECORA. Would not the fact that those changes were made after a discussion of the surrounding circumstances with the national bank examiner tend to indicate, Mr. Stair, that the criticism of the weak management of the bank found lodgment even in the minds of the directors of the bank?

Mr. STAIR. It did find lodgment.

Mr. PECORA. And they acted upon the criticism by making the change?

Mr. STAIR. They did.

Mr. PECORA. Now let me read further from the general remarks of the examiner contained in his report of examination of September 25, 1931:

Other benefits derived from this merger will be noted in the report of examination of the Peoples Wayne County Bank. All of the losses classified in this report will be eliminated prior to the merger.

Was that done, Mr. Stair?

Mr. STAIR. Mr. Wilson can tell you about that. I don't know whether that was done or not.

Mr. PECORA. Now I will read further; under the caption of "Redford banks" appears the following:

Kindly note remarks in connection with this matter on page 11-N of this report. This acquisition of assets without the consent of the Comptroller of the Currency is subject to the most severe criticism. The assets found in these two banks are largely unacceptable or nonconforming. On the basis of value as applied at this time, the experience has cost the bank at least \$500,000. This estimated loss, however, was not set up at this time, because it is my opinion that some other method should be found to remove these assets from the bank. If in your opinion the directors are responsible for any loss resulting from this deal your letter should so state.

What was the situation referred to in that portion of these general remarks?

Mr. STAIR. I am not familiar with it at all. I cannot recall.

Mr. PECORA. Don't you know anything about the acquisition of the Redford banks?

Mr. STAIR. I haven't the slightest recollection of the details.

Mr. PECORA. Not the slightest?

Mr. STAIR. No, I haven't; because Mr. Mark Wilson was an expert banker. He had been head of various institutions there, and the directors would naturally suppose that the officers or the attorneys were carrying on not only legally but judiciously.

Mr. PECORA. It appears that there was an examination made of the First National Bank, Detroit, as of May 6, 1932, and I think that was the first examination made after the bank had been consolidated with the Peoples Wayne County Bank.

Mr. STAIR. Yes, sir.

Mr. PECORA. You continued as a director of the bank and was serving as such at that time?

Mr. STAIR. Yes, sir.

Mr. PECORA. In May 1932 and thereafter?

Mr. STAIR. Yes, sir.

Mr. PECORA. Now, Mr. Stair, as a director of the bank, were any of the matters that were made the subject of comment or report by the national bank examiner based upon his examination as of May 6, 1932, ever brought to your attention?

Mr. STAIR. Yes, sir.

Mr. PECORA. And were they discussed by you with other members of the board of the bank?

Mr. STAIR. Not only with members of the board but with Mr. Leyburn and one of his assistants.

Mr. PECORA. Have you a fairly good recollection of the matters that were the subject of discussion at that time with your codirectors as well as with Mr. Leyburn and his assistant?

Mr. STAIR. Well, I cannot remember the details. In a general way I can remember that he criticized our overhead, said we had too many officers, and he was quite surprised to find the committee were familiar with what he considered the doubtful loans. We discussed the question of dividends. Directors were then ready to eliminate dividends, and he thought it would be bad policy to do it.

Mr. PECORA. Now, let me, possibly refreshing your recollection of matters taken up for discussion at that time, read to you from copy of the report of the national bank examiner of his examination as of May 6, 1932, under the caption of "General remarks":

This is the first examination since the consolidation of the First National Bank of Detroit and the Peoples Wayne County Bank of Detroit. Both of these banks were members of the Detroit Bankers Co. group, and as it stands now the capital stock of subject bank is the principal asset of the Detroit Bankers Co.

That was the fact, wasn't it?

Mr. STAIR. I believe so.

Mr. PECORA. I will read further from the general remarks in this report:

In commenting on this institution it is believed well to devote said comments to the various items of criticism as listed on page 11 and 11-B, as such an outline would give a more comprehensive picture of the situation.

Then under the caption of "Management" appears the following—let me first refer to what appears under the caption of "Commercial Loans":

The straight lines of credit plus the collateral loans are, frankly speaking, in an extremely bad condition. It is believed that such loans as were in the Peoples Wayne County Bank are perhaps in a more frozen condition than the commercial loans of the First National Bank. This is probably due to two reasons: First, the loaning officers of the Peoples Wayne County Bank were apparently much weaker, and second, the State Department of Michigan apparently permitted them to make a larger percentage of loans which strictly speaking, should not have been allowed in a commercial bank.

A very large percentage of loans are based on real estate security, some first mortgages, and a great many junior mortgages. Such mortgages as these that were taken over from the Wayne County Bank are listed as non-conforming in the real estate loan schedule.

The examiner cannot stress too strongly the fact that it will take almost superhuman effort to ever bring these loans down and put them on a proper basis. Certainly it seems almost impossible for them to do it with the present type of loaning officers.

What would you have to say about that comment, Mr. Stair, based upon any knowledge you had of conditions in the bank at that time?

Mr. STAIR. Well, he asked for an interview with a selected committee. We met with him. He went over these subjects. He found out that strenuous efforts were being made to correct those matters, and before he got through with the committee he complimented it on the progress that was being made.

Mr. PECORA. Who did?

Mr. STAIR. Mr. Leyburn. And he found, not including myself, because I was not active, but other members of the board, Mr. Mills, Mr. Newberry, and others, were very familiar and were giving a great deal of time gratuitously to straighten matters out.

Mr. PECORA. Was the condition indicated by this comment a condition that existed with regard to the loans that had been made on real estate?

Mr. STAIR. That I don't know.

Mr. PECORA. Under the caption of "Employee's Loans" appears the following comment in the national bank examiner's report:

A separate schedule is contained in the report showing the loans to officers and employees aggregating over 4 million dollars, and that at the beginning of the examination there was approximately 2 million dollars loss in these items alone. At the close of the examination the market was so much lower on Detroit bankers' stock that the loss will be much greater.

Most of these employees' loans were for the purpose of buying stock in the Detroit Bankers Co. This state of affairs has caused a breaking down of the morale of said employees and is very dangerous from a morale standpoint. It is believed that the directors should relieve the employees of all of these obligations.

What have you to say about that, Mr. Stair?

Mr. STAIR. I would say that was a very unfortunate condition that came about through the various mergers; that these officers borrowed from other banks. They finally all got into the same hopper. But they were not unethical when they borrowed. As I understand it, they borrowed from outside banks, and those banks were taken in.

Mr. PECORA. Were those borrowings by employees or officers made principally to enable such borrowers to buy stock of the Detroit Bankers Co.?

Mr. STAIR. That I don't know. The report says so. I don't know.

Mr. PECORA. You have no knowledge to the contrary?

Mr. STAIR. No, sir.

Mr. PECORA. You have no knowledge at all on the subject?

Mr. STAIR. I have no knowledge except that I know that this report was investigated and found true, that the officers were heavily indebted and a good many of them on Bankers stock.

Mr. PECORA. Those loans were secured in many cases, if not in most cases, entirely by the Detroit Bankers Co. stock?

Mr. STAIR. That, of course, I don't know.

Mr. PECORA. Do you know how heavy a concentration there was of collateral consisting of Detroit Bankers Co. stock in the First National Bank of Detroit?

Mr. STAIR. No, sir.

Mr. PECORA. Did you ever know?

Mr. STAIR. No, sir.

Mr. PECORA. Didn't the board of directors of the bank at times make a review of the affairs and conditions of the bank in such fashion as would have acquainted them with any heavy concentration of collateral of the particular kind as security for the loans?

Mr. STAIR. I think they must have.

Mr. PECORA. Well, you say you think they must have. From the fact that you do not know anything about whether or not there was a heavy concentration of Detroit Bankers Co. stock as collateral for loans in the bank I inferred that you had not learned of any heavy concentration of any particular kind of collateral. Was that an unjust inference?

Mr. STAIR. Well, in a way, yes. I may have learned that there was a heavy concentration, but the exact amount I cannot recall.

Mr. PECORA. How heavy was it according to your best recollection?

Mr. STAIR. I haven't the slightest recollection of how much it was. Figures have no charm for me and I don't remember them.

Mr. PECORA. I am not asking for a specific figure; I am asking for an approximation.

Mr. STAIR. Well, I cannot tell you approximately, Mr. Pecora.

Mr. PECORA. You could not tell whether it was 10,000 shares or 150,000 shares?

Mr. STAIR. No, sir. No, sir. I might have heard it at the time and it went out of my mind. I probably did hear it.

Mr. PECORA. Would a knowledge of the heavy concentration of collateral consisting of Detroit Bankers Co. stock pass out of your mind readily?

Mr. STAIR. I think it would, after the proper steps were taken.

The CHAIRMAN. How many shares of Detroit Bankers stock do you have?

Mr. STAIR. At the time of the complete organization of the Detroit Bankers I had something over 6,000 shares. The exact number I cannot recall. I have a statement of that with me.

Mr. PECORA. Would it surprise you to know that in November 1932 there was in this bank approximately 25 million dollars worth of loans secured either in whole or in principal by Detroit Bankers Co. stock?

Mr. STAIR. Yes, I would be surprised.

Mr. PECORA. Would you be surprised because you would regard that figure as excessive?

Mr. STAIR. No; I would not regard it excessive as the stock was at that time. I had great faith in the stock, as everybody else.

Mr. PECORA. Speaking of November 1932, Mr. Stair?

Mr. STAIR. Oh, November 1932? Well, November 1932 we thought it was going along pretty good.

Mr. PECORA. Would it surprise you to know that in November 1932 the bank had outstanding loans aggregating approximately 25 million dollars which were secured either wholly or in large part by collateral consisting of the stock of the Detroit Bankers Co.?

Mr. STAIR. I don't know as it would surprise me. It might and it might not.

Mr. PECORA. Would you think that that was a healthy condition to have in the bank at that time?

Mr. STAIR. It depends upon what portion of that was collateral.

Mr. PECORA. Well, I have already indicated. I said all or a greater part of it.

Mr. STAIR. Well, what part of it?

Mr. PECORA. The greater part of it.

Mr. STAIR. I should say perhaps that was a little over the balance.

Mr. PECORA. Did you know of that condition?

Mr. STAIR. No, sir.

Mr. PECORA. Let me read further from the general remarks of the examiner in his report of the examination of the bank made as of May 6, 1932. Under the caption of "Detroit Bankers Co." appears the following:

This company which controls the group consisting of subject bank and a number of other State and National banks throughout Michigan is in the examiner's opinion the root of a large amount of the present trouble. The stock of this company, which is backed practically entirely by the stock of subject bank, has dropped in price from over \$300 a share to \$20 a share at the beginning of the examination and \$9 at the close of examination. By referring to large loans it will be noted that the bank contains approximately 50,000 shares of Detroit Bankers Co. stock as collateral to commercial loans. Certainly this was a dangerous act on the part of the directors in allowing such a condition to take place and does not speak much safety for the group-bank plan. The bank contains a loan of \$4,000,000 of this company, which of course is not collectible at the present time, in fact is in reality a loss to the bank on the present basis.

Now, what would you say with regard to that statement, Mr. Stair, based upon whatever knowledge you may have possessed of conditions existent in the bank as of May 6, 1932?

Mr. STAIR. I don't believe I understand thoroughly the question.

Mr. PECORA. What is there about the question you do not understand? I have asked you what comment, if any, or what thought you had concerning the general remarks that I have just read to you from the national bank examiner's report under the caption of "Detroit Bankers Co."

Mr. STAIR. I would say that that was probably an unfortunate condition, but when those loans were made they were undoubtedly amply secured, there was ample collateral. That is to the best of my knowledge and belief. I haven't any—

Mr. PECORA. Were you acquainted with the conditions referred to by the examiner in this report at this point which I have just read to you from among his general remarks under the caption of "Detroit Bankers Co."?

Mr. STAIR. I don't think so.

Mr. PECORA. You don't think you are. You did not know then that in May 1932 there were only a quarter of a million shares of capital stock of the Detroit Bankers Co. held by the bank as collateral to commercial loans?

Mr. STAIR. I didn't know it; no, sir.

Mr. PECORA. That had never been brought to the attention of the board at any meeting which you attended?

Mr. STAIR. Well, it may have, but not at any meeting that I attended.

Mr. PECORA. And you were a fairly regular attendant at board meetings, were you?

Mr. STAIR. Quite fairly well.

Mr. PECORA. Don't you think that that was a condition that should have been brought to the attention of the board at its meeting, that is, the condition reflected by this heavy concentration of collateral?

Mr. STAIR. It should have been brought probably and possibly was.

Mr. PECORA. But not at any meetings that you attended?

Mr. STAIR. I didn't happen to be at any meeting; no, sir.

Mr. PECORA. And you never knew that that was the extent of concentration of collateral in May 1932?

Mr. STAIR. I knew that there was considerable Detroit bankers stock in as collateral. It was taken in there when it was selling around \$125 then, and I didn't know to the extent you referred to there.

The CHAIRMAN. What was the par value of that stock?

Mr. STAIR. \$20.

Mr. PECORA. Now let me read this to you from the general remarks of the examiner in his report of examination of the bank as of May 6, 1932, and this appears under the caption of "Real Estate Loans":

The real-estate loan schedule will show a highly unwarranted aggregate of real-estate loans which are causing a frozen condition. Much more so is this true in Detroit than in most cities, because of the rapidity with which Detroit grew due to the automobile industries. These real-estate loans are going defaulted by the hundreds, as will be noted by the separate foreclosure schedules totaling over \$8,000,000.

It is believed, technically speaking, there are a great many more nonconforming loans than shown in the real estate loan schedule, but is practically an impossibility to properly analyze them, due to there being in the neighborhood of 60,000 mortgages alone. From these loans will arise a tremendous amount of other real estate.

Were you cognizant of that condition alluded to in this portion of the examiner's report, Mr. Stair?

Mr. STAIR. I believe I was.

Mr. PECORA. And for what period of time or for how long a period of time prior to May 1932 had the condition been in the development which is alluded to by the examiner in this fashion?

Mr. STAIR. I think it had been developing since the early part of 1930 probably.

Mr. PECORA. Yes.

The CHAIRMAN. Has there been an improvement in the real estate situation since this?

Mr. STAIR. It is improving just slightly. Detroit was probably the worst hit city in the universe, not only by the closing of these two banks but by the industry, which is now on its feet again.

The CHAIRMAN. Is there any real estate being sold?

Mr. STAIR. Yes; some being sold. I understand that some of the property that the receiver has taken over was sold at a slight profit.

The CHAIRMAN. The bank had to acquire a great deal of real estate, I take it, by foreclosure and otherwise?

Mr. STAIR. Most of these banks that came in were savings banks. They were serving the community by lending money for the building and purchase of homes, and I presume that those banks helped at

least a hundred thousand people buy or build homes. In other words, the bank was serving the community. They were not money changers.

Mr. PECORA. Those were the banks that were taken over eventually—

Mr. STAIR. All of them, yes, sir.

Mr. PECORA. By the First National?

Mr. STAIR. Commencing with the Central right up, yes.

Mr. PECORA. When did that process of the acquisition of these banks start, Mr. Stair?

Mr. STAIR. It started with the Central Savings Bank.

Mr. PECORA. When?

Mr. STAIR. What year I cannot remember, but that was the first bank taken over by the First National, and they had mortgages, and they were good mortgages.

Mr. PECORA. And up to what time were these other banks taken over?

Mr. STAIR. Well, you must have the record there. I can not remember the year. I can just barely remember the year I was born. Dates do not seem to click with me. But the Home Savings Bank merged with the State, and both of those banks were very heavy savings institutions with plenty of mortgages—and good mortgages. I don't remember whether the Peninsular had many or not. Then there was the Merchants National that merged with the Peninsular or with the Dime. They all came into this one hopper.

Mr. PECORA. The one hopper that you referred to is what, the First National Bank or the Detroit Bankers Co.?

Mr. STAIR. The First National Bank.

Mr. PECORA. Let me read the following from the general remarks of the national examiner in his report of the examination of May 6, 1932, which appears under the caption of "Other real estate":

The bank now contains \$8,000,000 in other real estate, and potential other real estate will be two or three times that amount or probably more if conditions do not change. The amount shown as doubtful is unquestionably a loss.

Now, from your knowledge of conditions in the bank in May 1932, would you say that that comment of the examiner was a fair one?

Mr. STAIR. It might be fair from his standpoint. I think it is a little exaggerated from the bank's standpoint.

Mr. PECORA. To what extent do you believe it is exaggerated?

Mr. STAIR. Well, I believe he overestimated the losses.

Mr. PECORA. What do you think the losses should have been estimated at?

Mr. STAIR. That I cannot figure. I am not a mathematician. I know this—

Mr. PECORA (interposing). Do you mean that seriously, Mr. Stair, that you cannot figure it because you are not a mathematician?

Mr. STAIR. Well, who can tell how much losses are going to be on, say, 60,000 mortgages?

Mr. PECORA. I have asked for your estimate. You have already characterized the examiner's estimate as exaggerated. Now, what was your estimate? You must have had something in mind, in view of the fact that you characterized someone else's as "exaggerated"

Mr. STAIR. Well, I certainly had nothing in mind particularly.

The examiners generally find fault and pick out flaws, and it is their business and it is very essential.

Mr. PECORA. The examiners are there to find faults which exist, are they not?

Mr. STAIR. Well, some of them exist and some of them do not.

Mr. PECORA. Did this fault exist?

Mr. STAIR. I think that they overestimated it.

Mr. PECORA. To what extent?

Mr. STAIR. Well, I will take one loan to illustrate, the Catholic mortgage. He threw them out as not good. Now, there has never been one of them defaulted, the whole thing paid up to date. They are paying their money.

Mr. PECORA. Are they included in this "other real estate" comment?

Mr. STAIR. They are included in mortgage loans.

Mr. PECORA. Are they included in this "other real estate" comment?

Mr. STAIR. I don't know as to that.

Mr. PECORA. Now let me read the following, Mr. Stair, from the general remarks of the examiner in his report of examination of May 6, 1932, which appears under the caption of "Banks Taken Over":

This includes the American State Bank and two banks at Redford, Mich. Upon referring to the schedule it will be noted that there is approximately \$10,000,000 loss in these banks at the present time, and it is believed there will be considerably more due to the very lax manner in which the liquidation of their assets is being handled. It apparently was a poor piece of business for them to take this bank over, as they not only have large losses but subject bank is also liable on many leases which will run into a serious amount. The liability on these leases is also shown on the schedule of the American State Bank. The loss of these banks has been placed in the doubtful column at this time.

Would you say that that criticism or observation——

Mr. STAIR (interposing). Is just.

Mr. PECORA. Is just?

Mr. STAIR. Yes, sir. I think it was a mistake, but it was done with the best intention. The clearing house bank took over that bank to save runs on other banks and to save the depositors, and it cost them a pretty penny. It was not just this one bank alone, it was the clearing house. There was a savings bank with \$40,000,000 of deposits, a very serious situation in the town. They contemplated the loss, as I understand it—I was not there at the time the thing was done—of not to exceed a million or a million and a half, and the losses ran up to ten or eleven million dollars.

The CHAIRMAN. What bank was that?

Mr. STAIR. That was the American State.

The CHAIRMAN. A savings bank?

Mr. STAIR. Yes.

Mr. PECORA. Now let me read this statement that next follows under general remarks in this report of examination. It appears under the caption of "Bond Account":

While the account contains a sizable depreciation, it is believed that many of the bonds will come back, and perhaps this account is the least of their troubles.

You would agree with that, I presume?

Mr. STAIR. Yes; O.K.

Mr. PECORA. As being a fair comment or criticism?

Mr. STAIR. Yes.

Mr. PECORA. Now follows the following comment under the caption of "Branches":

The bank has approximately 178 branches in the city of Detroit, which is extremely dangerous, and should fear ever enter the minds of depositors, they could, through these banks, make short work of their job.

Would you agree with that observation?

Mr. STAIR. I agree they had too many branches; always have. But these branches were accumulated from the various units, and they were being consolidated or eliminated just as fast as they could be.

Mr. PECORA. How many were eliminated, all told, by consolidation and other methods?

Mr. STAIR. Well, they were accumulated by consolidations.

Mr. PECORA. How many were eliminated after the accumulation?

Mr. STAIR. After Mr. Mills got a hold there I believe he was eliminating at the rate of, oh, probably 2 or 3 a week.

Mr. PECORA. How many all told?

Mr. STAIR. I don't know. Mr. Mills can answer that. I know that they were being eliminated just as fast as they possibly could, or consolidated. Some of these branches were being consolidated. They were doing it as fast as they could without disturbing the community.

(Addressing Mr. Mills.) May I ask how many? Can you tell me?

Mr. MILLS. I have the statement right here.

Mr. STAIR. I think it is interesting to know.

Mr. PECORA. Well, I will examine Mr. Mills later.

Mr. STAIR. You asked me, and I am sorry I cannot give you that.

Mr. PECORA. Under the caption of "Liquidity" appears the following comment in the examiner's report as of May 1932:

It will be noted that the liquidity is entirely too small for a bank of this size, especially when taking into consideration their condition.

What is your opinion of that criticism?

Mr. STAIR. It was smaller than I would have liked.

Mr. PECORA. You mean the liquidity was smaller?

Mr. STAIR. Yes; smaller. The bank did not take the position of selling people out. It tried to help them. Not only was that its attitude toward its customers, but to the smaller banks in the State. It went to the rescue of quite a number.

The CHAIRMAN. What is the legal rate of interest in Michigan?

Mr. STAIR. Seven percent. I don't know of this bank ever charging over 6. I am not certain about the legal rate. It used to be that. What is it, Senator?

Senator COUZENS. I don't remember.

Mr. STAIR. It used to be 7. I don't remember of this bank ever charging over 6.

The CHAIRMAN. The customary rate is 6 percent, but you could contract for 7?

Mr. STAIR. Yes, sir.

Mr. PECORA. Now, let me read the following comment of the examiner in his report of the May 1932 examination under the caption of "Dividends":

The first quarterly dividends were paid on the basis of 16 percent annually. This is entirely too large, and while the examiner feels that it should be eliminated entirely, the effect of so doing would probably cause them too much trouble. To eliminate dividends altogether would mean the Detroit Bankers Co. could not, in turn, pay dividends, and this would demoralize the market and perhaps cause a run on the bank. It is therefore suggested that they be allowed to pay up to 8 percent annually for the present—

The words "for the present" being underlined.

What is your opinion with regard to the soundness and fairness of that comment?

Mr. STAIR. I agree with it.

Mr. PECORA. Agree with it in its entirety?

Mr. STAIR. Yes, sir. I was present at the conference when they were asking—the question was discussed with Mr. Leyburn. I take it this is his report.

Mr. PECORA. Well, it is countersigned by him as chief examiner of the district.

Mr. STAIR. Yes, sir. Well, he was there in person. And if I remember right, the dividend was cut for July 1932 on that basis.

Mr. PECORA. Doesn't that condition, Mr. Stair, suggest to you the weakness or unsoundness or un wisdom of group banking, or of having a holding company?

Mr. STAIR. You are asking me an embarrassing question. I haven't been in favor of group banking at all.

Mr. PECORA. You haven't been in favor of it—

Mr. STAIR (interposing). No, sir.

Mr. PECORA (continuing). At any time?

Mr. STAIR. No, sir. But it turned out to be to the interest of the town as long as it existed. However, I never was in favor of consolidation. I thought that every bank ought to be built up on its own stump; but the majority was the other way, and their arguments were good.

Mr. PECORA. Their arguments at least prevailed on your mind?

Mr. STAIR. Well, their arguments were good.

Mr. PECORA. Their arguments were better than yours, do you mean?

Mr. STAIR. Well, apparently they were. The majority believed that way, and I always believed in majority rule.

Mr. PECORA. In the light of events that have taken place since then, would you say that what has happened has vindicated your judgment?

Mr. STAIR. Well, no, sir.

Mr. PECORA. Then do you think it has vindicated those who favored group banking?

Mr. STAIR. No; I think those things would have occurred just the same.

Mr. PECORA. Would this condition have occurred that the national-bank examiner commented upon, on the subject of dividends, just the same?

Mr. STAIR. Well, as to that I cannot say.

Mr. PECORA. Isn't it quite apparent that that condition would not have prevailed if the First National Bank had not been a part of this group banking system that was represented by the Detroit Bankers Co. as the holding company?

Mr. STAIR. Oh, I believe this: That things occurring in any of the other banks of the town would have reflected upon the larger banks. I do not see how you could have avoided the trouble.

Mr. PECORA. You have told us that your opinion always was that group banking was not the thing.

Mr. STAIR. I was not favorable to it.

Mr. PECORA. You were not favorable to it?

Mr. STAIR. I was not favorable to group banking; no.

Mr. PECORA. And your faith in it has not been increased by the experience since 1930—I mean the experience of the Detroit Bankers Co.

Mr. STAIR. Yes, sir; I believe it was a wise move. I believe I was mistaken about it.

Mr. PECORA. Do you still believe that?

Mr. STAIR. I still believe I was mistaken as to that.

Mr. PECORA. You still think that group banking, then, is a good thing?

Mr. STAIR. I think that group banking was a good thing for the town.

Mr. PECORA. You say "was." Do you confine that statement of opinion to the past or does it reflect your opinion at the present time?

Mr. STAIR. No. After the group got into action they began to clear things up, and I think it was a very good thing, because it would enable the bank to make proper loans to the town's industries. Detroit was a great industrial city, as you know, and at that time—

Mr. PECORA. (interposing). Why couldn't the bank make proper loans without being a unit bank?

Mr. STAIR. Its capital was not sufficient.

Senator COUZENS. Oh, Mr. Stair, the Detroit Bankers Co. did not increase the capital.

Mr. STAIR. Yes.

Senator COUZENS. It still remained in the matter of the individual units at the limitation that was placed upon the capital of the individual units, and not on the capital of the Detroit Bankers Co.

Mr. STAIR. When the banks were all merged into the First National Bank they had a great deal larger capital than they had had originally.

Senator COUZENS. That is true, but—

Mr. STAIR (continuing). Its loaning power was increased.

Senator COUZENS. That is not what Mr. Pecora is discussing. He is discussing the organization of the Detroit Bankers Co., of that group. The mere organization of a holding company in no sense increased the loaning capacity of the individual unit, did it?

Mr. STAIR. No. Then I did not understand his question.

Mr. PECORA. I was trying to get from you your opinion as to the soundness of group banking in the light of the experience of the Detroit Bankers Co.

Mr. STAIR. Well, I haven't given it serious thought.

Mr. PECORA. What was that answer?

Mr. STAIR. I say, I haven't given that particular question serious thought. That was done, and then——

Mr. PECORA (interposing). Would it be necessary for you now to give it serious thought in order to enable you to express an opinion as to the wisdom or soundness, or the lack thereof, of the group-banking system? Haven't your experiences since 1930 served to formulate an opinion in your mind?

Mr. STAIR. I cannot say that it has changed my opinion as to group banking. But I believe this group bank was probably the wise thing to do.

Mr. PECORA. Well, now, for what reason?

Mr. STAIR. Just for the reasons I have said.

Mr. PECORA. The reason you said was that it improved the loaning power of the banks.

Mr. STAIR. It did.

Mr. PECORA. Well, how did it improve the loaning power if it did not increase their capital structure?

Mr. STAIR. It increased the capital and surplus of the First National Bank, and then the First National Bank could loan larger sums.

Senator COUZENS. Well, they could have done that without the organization of the Detroit Bankers Co., couldn't they?

Mr. STAIR. You are now speaking of the holding company?

Senator COUZENS. Yes. What we are trying here now to do is to get your view of the holding company.

Mr. STAIR. Well, that is on the legality of it.

Mr. PECORA. I am not asking you as to the legality of it, but as to the soundness of it. Have you any opinion about that?

Mr. STAIR. I have no opinion.

Mr. PECORA. Then the knowledge you have gained from the experience of the Detroit Bankers Co., and its various units, since January of 1930, has not served to give you any opinion, or caused you to form any opinion concerning the merits or lack of merit of the holding company system?

Mr. STAIR. It has not convinced me of any demerits.

Mr. PECORA. Has it convinced you of any merit?

Mr. STAIR. Well, I wouldn't say that it had.

Mr. PECORA. Then you haven't been able to form any opinion about it at all; is that your answer?

Mr. STAIR. I wouldn't say that.

Mr. PECORA. What is the opinion that you have formed, if you have formed any opinion?

Mr. STAIR. My opinion is that it was desirable at the time it was done.

The CHAIRMAN. It was not very successful, was it?

Mr. STAIR. What was that, Mr. Chairman?

The CHAIRMAN. I say, it was not very successful, was it?

Mr. STAIR. It did not prove to be successful.

Mr. PECORA. You said your opinion was that it was desirable at the time it was done. Yet you have also testified that you were not in favor of it at the time when it was done.

Mr. STAIR. I was not particularly in favor of it—I mean of so many consolidations. But as to the method, I had no argument as

to that—I mean the method of conducting the business after it was organized.

Mr. PECORA. Now, for what reason do you think that the holding-company system of banking, and I will call it that in order to cause no confusion in your mind by using the term “group banking”—for what reason do you think it was a good thing at the time it was done in the case of the Detroit Bankers Co.?

Mr. STAIR. Well, it brought about consolidation in a successful way.

Senator COUZENS. Couldn't the Peoples and the Wayne County and the First National have consolidated without their having been consolidated into a holding company?

Mr. STAIR. I think so.

Mr. PECORA. What consolidation are you now referring to?

Mr. STAIR. The consolidation of the various banks.

Mr. PECORA. Do you mean all of the banks acquired by the Detroit Bankers Co.?

Mr. STAIR. All the banks that went into the group.

Mr. PECORA. But those banks continued to function under their respective charters, didn't they?

Mr. STAIR. For a time.

Mr. PECORA. Well, until there were consolidations effected, they continued to operate under their respective charters?

Mr. STAIR. Yes, sir.

Mr. PECORA. And until such consolidations as were effected took place the banks continued to function under the charters as one of the constituent banks such as prior to the consolidation, didn't they?

Mr. STAIR. Well, now—

Mr. PECORA (interposing). How did the fact that these unit banks were owned by the Detroit Bankers Co. confer any benefits upon any unit bank, or upon any community being served by such bank?

Mr. STAIR. As to that I do not know.

Senator COUZENS. May I ask you, Mr. Stair, if you believe that the Home Savings Bank at the corner of Michigan and Griswold, of which Mr. Haass was the head for a long time; and if the Wayne County Bank, of which Mr. Collins was the head for a long time; and the Peoples Bank at the corner of Wayne and Fort, under George Russell for a long time, had continued under that sort of management they would be closed today?

Mr. STAIR. Well, you are asking me—

Senator COUZENS (continuing). I am asking you for your opinion, because you have been for a long time a resident there and you have seen the Detroit Savings Bank continue under these circumstances.

Mr. STAIR. That would be a hard question to answer, Senator Couzens.

Senator COUZENS. How do you account for the fact that the Detroit Savings Bank has continued over all these years as an independent unit, when equally good banks, such as the Wayne County Bank and the Peoples Bank and the Home Savings Bank have disappeared?

Mr. STAIR. That question I cannot answer.

Senator COUZENS. Haven't you any opinion on that?

Mr. STAIR. My opinion is that they were purely savings banks. They had very little commercial business, and had a good line of

mortgages, and while not making a large amount of money, the Detroit Savings Bank is a sound bank.

Senator COUZENS. And these other banks probably would have been sound banks today?

Mr. STAIR. No. They had the advantage of being under a State charter, and they had friendly and kindly help, the Detroit Savings Bank did, when the crisis came. National banks had nothing. They had no help at all.

Senator COUZENS. That is not what I am talking about. I am talking about a continuation of the old Home Savings Bank, which was an old reliable bank for many years; and the Wayne County Bank, and the Peoples State Bank, all of which had State charters. I have never been able to conceive of the necessity for these banks all going out of existence and consolidating into one unit. What I am trying to find out is if, in your observation, they had continued as such, the same as the Detroit Savings Bank did, wouldn't they be in existence today?

Mr. STAIR. The chances are that they would, because they would have had the friendly cooperation of the State of Michigan, whereas the national banks got no help. They were seized.

Senator COUZENS. The Detroit Savings Bank continued as an individual unit over all the years, and it was not closed.

Mr. STAIR. And neither was the Commonwealth.

Senator COUZENS. And if these other banks had continued along the same line they would be in existence today, wouldn't they?

Mr. STAIR. Possibly that is true.

Senator COUZENS. That is what I wanted to get from you.

Mr. STAIR. Possibly that is true.

Senator COUZENS. Because I have never been able to see the idea of consolidating all these good old, sound, and safe savings banks that did a satisfactory and safe business.

Mr. STAIR. Neither did I. But you must understand that these banks you are referring to had help and consideration. The First National Bank had no consideration whatever.

Senator COUZENS. But these banks I have been referring to were not in existence when the crisis came.

Mr. STAIR. No.

Senator COUZENS. The Wayne County Bank and the Home Savings Bank and the others were not then in existence.

Mr. STAIR. But the Commonwealth and the Detroit Savings Bank were in existence, and they had help.

Senator COUZENS. And I think the others would have been in existence if they had not been consolidated.

Mr. STAIR. No doubt; because they would have had State help.

Senator COUZENS. What I am trying to bring out is this: That it was the mere consolidation of all these banks, that made such a colossal institution, that they were wiped out when the crisis came. While the others, who retained their State charters, were not wiped out.

Mr. STAIR. Well, Senator Couzens, you were on the board of the old Detroit National Bank at the time of the consolidation and you know what my attitude was.

Senator COUZENS. Yes. I am quite familiar with it.

Mr. STAIR. It was that way all the way through.

The CHAIRMAN. You spoke about certain banks having help. What kind of help did they have?

Mr. STAIR. Well, they had consideration. They were permitted to open up on a partial basis, and finally on a final basis. They were not hampered. And I maintain that the First National Bank was without any kind of help at all. Even with the help that was promised it could have gone along normally, because it was serving the community.

The CHAIRMAN. Do you mean that—

Mr. STAIR (continuing). There was not the slightest reason for the closing of the First National Bank in Detroit, notwithstanding it had some of these bad loans. Over a period of 2 years I should say at least a million to a million and a half of dollars a week of deposits were oozing out through the unfortunate publicity of the radio priest there. But notwithstanding all that, they had taken care of all of their depositors and their business as they went along. Yet they must have suffered many millions of dollars, maybe \$100,000,000 of withdrawals in the last 2 years. And still they were in good condition when the wreck occurred.

The CHAIRMAN. Well, their connection with the units outside, through this combination, helped to close them, didn't it?

Mr. STAIR. I imagine so.

The CHAIRMAN. All right. Go ahead, Mr. Pecora.

Mr. STAIR. I would say this, Mr. Pecora, if I might interpolate: Regarding your criticism of management, if we had had the management 2 years prior to the time we got the management last May or June, our banks would have been in very much better shape.

Senator COUZENS. You meant in 1932 rather than last year, didn't you?

Mr. STAIR. Yes; the last half of the year.

Senator COUZENS. You meant in 1932, when you said last May or June, instead of last year, didn't you?

Mr. STAIR. Yes; the last half of 1932.

Mr. PECORA. What prevented you from obtaining that management?

Mr. STAIR. I cannot tell you.

Mr. PECORA. Well, I am sure that I cannot. Do you know of anything that stood in the way?

Mr. STAIR. Nothing only our belief, the belief of the directors, that we had the right man.

Mr. PECORA. Now we come to that portion of the general remarks of the examiner in this report of his examination of May 1932, under the caption "Management", which reads as follows:

From the above paragraphs—

And he is referring to the paragraphs which I have already read to you—

one can readily determine that the officers of this bank are not of the proper type. With the exception of two or three, they are very weak and could be considered nothing but fair weather bankers, who in times like these do not know how to cope with a mean situation. This is a serious problem due to the fact that they should deliberately fire about 20 of their key men and employ a dozen good men who would have some idea of cooperation and efficiency.

So far do you think that is a fair and just criticism?

MR. STAIR. Well, I think it a little severe, but more or less proper. And, after reading that, we asked him and several of his fellow examiners to point out to us the best men in the loaning line. And they very reluctantly did it. They told us of some of the best we had; and eliminations were being made as fast as they could be made.

MR. PECORA. Mr. Stair, I am rather inclined to marvel at a situation where the directors and officers of the bank sought advice of their personnel from national bank examiners, who come around twice a year to make examinations.

MR. STAIR. Well, they sought his advice because he had made this assertion.

MR. PECORA. Well, you now say the assertion, fairly speaking was just and reasonable.

MR. STAIR. Yes; we had too many.

MR. PECORA. Not too many alone, but he says you did not have enough of the right kind. Isn't that the substance of this criticism?

MR. STAIR. No; the substance of it, or at least largely in the conversation with us was, that we had too many, and some of them were too weak.

MR. PECORA. Yes. And you asked the examiners to advise you concerning the personnel and the changes that should be made in the personnel of the bank.

MR. STAIR. No; not that far.

MR. PECORA. That is what I understood you to say a moment ago.

MR. STAIR. This is what I said. These examiners were examining the condition of the work under the people in the banks, and going over their accounts, and we wanted to know the men who showed the best record and who had the clearest conception of their work. And he did point out a number of men that he thought were the best in the bank.

MR. PECORA. But, Mr. Stair, don't you think that the executive officers of a bank, as well as the directors, had far superior facilities and opportunities for determining the work of the various members of the personnel, than would be possessed by national bank examiners who come around twice a year to examine the condition of a bank?

MR. STAIR. Yes, I think so. But we had gone through a period of inactivity. The head of the bank didn't function in that way.

MR. PECORA. Of whom are you now speaking specifically?

MR. STAIR. The president of the Detroit Bankers Co. and chairman of the First National Bank.

MR. PECORA. Do you mean Mr. Ballantyne?

MR. STAIR. Yes, sir.

MR. PECORA. Well, how long did he function as president of the Detroit Bankers Co. and chairman of the board of the First National Bank before you realized that he did not measure up?

MR. STAIR. Well, he was being urged and urged, for months and months before his final resignation, to do something, to get cooperation, to get coordination.

MR. PECORA. I venture to say, Mr. Stair, from that answer of yours, that you controvert the statement made to this committee by

Mr. Ballantype, which, in substance, was that he resigned partly because as the president of the company and as the chairman of the board of the bank, he felt he did not have the power that he should have had, and that when he sought that power it was denied to him.

Mr. STAIR. He had all the power.

Mr. PECORA. Then you controvert Mr. Ballantyne's statement?

Mr. STAIR. Yes, sir. He had the power and authority and was asked to exercise it.

Mr. PECORA. And notwithstanding your opinion, the opinion that you now express, that his management was weak, no change was made until——

Mr. STAIR (interposing). Well, I haven't said that.

Mr. PECORA. Well, I inferred that that was your opinion. Is it an unfair inference on my part? If so, I do not want to indulge in it.

Mr. STAIR. I have the highest respect for him as a man and citizen, but as the operator of that bank he was a complete and absolute failure. That is my opinion, and I say that very reluctantly, because I am very fond of Mr. Ballantyne personally.

Mr. PECORA. Was that opinion to your knowledge shared by other members of the boards, both of the company and of the bank?

Mr. STAIR. I think so.

Mr. PECORA. Then, why didn't they make a change?

Mr. STAIR. They did.

Mr. PECORA. Yes; they did after a year.

Mr. STAIR. Well, you have got to give a man a chance, haven't you?

Mr. PECORA. He was permitted to serve his whole year out.

Mr. STAIR. Yes.

Mr. PECORA. And all along you were conscious of the fact that his management was weak, and yet that management had a responsibility attached to it that involved hundreds of millions of dollars of the depositors' money.

Mr. STAIR. Well——

Senator COUZENS (interposing). Mr. Stair, what authority was it that Mr. Ballantyne asked for that he could not get and that he complained about?

Mr. STAIR. I never heard him ask for any authority.

Senator COUZENS. You never heard him ask for any authority?

Mr. STAIR. No. He was provided with that authority, and the committee constantly asked him to do certain things, to get cooperation and coordination, and to get rid of a lot of officers.

Mr. PECORA. Can you be more specific than that? What things had the governing committee asked him to do?

Mr. STAIR. I cannot remember, except that proper coordination did not exist between the two banks when they were operating as units. The Wayne Bank did not know what the other bank was doing, and we thought there should be greater coordination. And we thought they were overofficered, and no changes were being made. He had one man drawing \$20,000 a year, or thereabouts, with nothing to do; and he finally resigned, saying he could not draw his salary any more and retain his self-respect. That was Mr. Douglas. It was because he was given nothing to do.

The CHAIRMAN. What was Mr. Ballantyne's salary?

Mr. STAIR. It was \$50,000 at the beginning, I believe. Or it may have been \$60,000.

Mr. PECORA. Let me read the balance of the comment made by the national bank examiner in this report of examination of May 1932 under the caption "Management":

In the past the bank has been governed entirely by the Detroit Bankers Co., of which Mr. John Ballantyne was the president and Mark Wilson the executive vice president. About a week after this examination commenced these two men resigned, so that the brunt of the operation of the bank falls on Mr. Wilson Mills, the chairman of the board, who, up until a year and a half ago, was an attorney.

The manner of management was thoroughly discussed with the governing committee, and a policy will be worked out along the lines of doing everything possible to add strength.

Would you say that that is a fair and reasonable comment to make?

Mr. STAIR. Yes, sir. I further would say that if Mark Wilson had been given the authority he should have had he would have done mighty good work in the bank.

Mr. PECORA. Who denied him that authority?

Mr. STAIR. I imagine it was his superior. I do not know that he was denied authority, but he certainly could not get things done.

Mr. PECORA. Why didn't the board of directors see that it was done?

Mr. STAIR. Well, they didn't know what was going on.

Mr. PECORA. They did not know what was going on?

Mr. STAIR. No; not in the inner workings of the politics of the bank.

Mr. PECORA. Now, under the caption of "General", let me read the following in the general remarks of the examiner as contained in this report:

This bank has four large offices down town, and, as stated above, approximately 178 branches throughout the city. All these banks and branches were entered at 3.15 p.m. on May 6 for the starting of the examination, and of the men there to start with, with some assistants, there were 460 in number. Every examiner and assistant in the Seventh Federal Reserve District, with the exception of two, were used, and the balance of the men came from the auditing department, and some from the various branches of the bank itself.

The job is almost unbelievable in size, and is certainly very difficult to get to the bottom of due to the manner in which the business is conducted, as well as the deplorable condition of the management of assets.

For the Department's consideration the examiner wishes to state that the losses in the bank are considerably more than are shown in the recapitulation on page 11a. The fact is that the bank, in the examiner's opinion, at the present time contains at least \$70,000,000 in slow assets, \$54,000,000 in doubtful assets, and approximately \$49,000,000 in losses. This amount cannot be shown in the recapitulation as there is absolutely no way to take care of such losses, and the directors, upon seeing such items, would be completely demoralized.

Just how the institution will ever work out of such a burden cannot be foretold. Earnings, it is believed, will decrease.

For the Department's information the examiner did not call loans secured by the Detroit Bankers' stock doubtful. Such loans as are secured by this stock should be considered doubtful, but in fairness to them and because of other large questionable assets, such loans were only reclassified as slow.

At the close of the examination a meeting was held by Chief Examiner Leyburn with the entire governing committee, and all matters as above outlined were freely discussed. It was concluded not to take out more than approximately \$8,500,000 in losses, the balance being shown as doubtful.

As rapidly as possible weak officers are to be replaced.

Mr. STAIR. Is that the end of it?

Mr. PECORA. This is the report of the examination made as of May 6, 1932. In other words, it was the first examination made after the consolidation of the Peoples Wayne County Bank and the First National Bank in Detroit.

Mr. STAIR. Well, some of those comments were very strenuously objected to, as to some of those items, as being unfair.

Mr. PECORA. Which were objected to as being unfair?

Mr. STAIR. Well, the 74,000—

Mr. PECORA (interposing). You mean the \$74,000,000?

Mr. STAIR. Yes.

Mr. PECORA. Was there anything else?

Mr. STAIR. Well, I don't remember. There was quite an argument going on there.

Mr. PECORA. Do you remember the substance of the argument?

Mr. STAIR. Well, that he had overestimated the losses. And we agreed upon the charge-offs, but I don't remember what it was.

Mr. PECORA. Did you find that the national-bank examiners with whom you discussed these items were disposed to be as helpful as possible?

Mr. STAIR. I think they were.

The CHAIRMAN. The subcommittee will now take a recess until 2 p.m.

(Thereupon, at 12:55 p.m., Thursday, Feb. 1, 1934, the subcommittee recessed to meet at 2 p.m. the same day at the same place.)

AFTERNOON SESSION

The subcommittee resumed its session at the expiration of the recess.

The CHAIRMAN. The committee will come to order.

TESTIMONY OF EDWARD DOUGLAS STAIR, NEWSPAPER PUBLISHER, DETROIT, MICH.—Resumed

Mr. PECORA. The next examination of the First National Bank in Detroit following that of May 6, 1932, appears to have been made as of November 18, 1932, and the report of such examination was made on December 30, 1932, as appears from a photostatic copy which I have of such report. Do you recall having discussed with either the examiners in charge of that examination or members of the board of the bank or any of its officers any items of criticism that appeared in that examiner's report?

Mr. STAIR. I was not present when the report was read nor at any of the discussions.

Mr. PECORA. You were then the president of the bank, were you not?

Mr. STAIR. Of the Detroit Bankers Co. I was a nonactive president; that is, a nonsalaried president.

Senator COUZENS. Were you not active in reducing the expenses of the Detroit Bankers Co.?

Mr. STAIR. No; that was left to Mr. Mills and his assistants.

Senator COUZENS. What was Mr. Mills' position in the Detroit Bankers Co. at that time?

Mr. STAIR. I do not remember whether he was chairman or just a member of the board.

Senator COUZENS. Was he chairman of the First National Bank at that time, in 1932, and later?

Mr. STAIR. I think so; I think he was. He was chief executive. Everything was thrown on to his shoulders.

Mr. PECORA. Mr. Stair, let me read to you the following, under the caption of "General remarks", from the report of the examiner of his examination of November 1932 [reading]:

The enormous amount listed as doubtful cannot but help reveal the extent of losses which this bank will be called upon to absorb, and I am frank to admit that the classifications are most lenient and have been made not from the standpoint of segregating bankable assets from collectible assets, but with the thought of ultimate collection at most any future date. A real analysis of the mortgage loans, together with additional funds on collateral mortgages, would unquestionably present a most deplorable picture. The real estate speculators have subdivided the country within a radius of 30 to 35 miles, and the freedom with which these banks, subject banks and amalgamations of several banks, both State and National, passed out money for real estate and stock speculation is incomprehensible. Most every loan in the bank depends either on real estate or upon an upturn in the automobile industry, and the real estate situation depends on the latter. Loan after loan in sizable amounts was made to persons who had no license whatever to borrow money and who are so badly involved that it is useless to even consider that they can ever attempt to pay.

Are you familiar with the condition reflected by that statement, Mr. Stair?

Mr. STAIR. No, sir. I do not remember ever hearing that statement. Was that on the yellow report or on the regular?

Mr. PECORA. Well, it now appears on a photostatic copy, which is neither red nor yellow; but I understand it was on the yellow portion.

Mr. STAIR. I guess so. No such report ever came to the bank that I know of.

Mr. PECORA. Were you a member of the governing board of the bank at that time?

Mr. STAIR. Yes, sir.

Mr. PECORA. The examiner, Mr. R. S. Beatty, who signs this report, together with Chief Examiner Leyburn, in this report states that meetings and discussions were held with the chief examiner and members of the governing board with respect to the items of criticism in this report. Apparently if such meetings were held, you were not present?

Mr. STAIR. I was not in the city.

Mr. PECORA. As a director of the bank and a member of its governing board, did you have that knowledge of the bank's condition in November 1932, which would enable you now to state whether or not this criticism or observation which I have read to you, of the examiner, was fair and reasonable?

Mr. STAIR. My opinion in November, and also in January, was that the bank was in a mighty good condition. I never read or saw anything of that kind. We knew we had bad loans, and we knew a great many of them were going to whip out.

Mr. PECORA. Did you know the amount of bad loans that you had in November 1932?

Mr. STAIR. It was read, yes; at the time—along in January.

Mr. PECORA. Did you know in November 1932?

Mr. STAIR. I did not know in November. At the close of the year the questionable loans were reported to the governing committee.

Mr. PECORA. Do you remember what the amount of them was?

Mr. STAIR. I do not. If I might guess, it was somewhere around \$50,000,000.

Mr. PECORA. Do you remember what action was taken by the governing committee on the report respecting those bad loans?

Mr. STAIR. They were turned over to the collection department to urge the collection as far as it could be made.

Mr. PECORA. When you said, as you did a few moments ago, that you knew in December 1932 and in January 1933 that the bank was in "mighty good condition", just what did you mean by that?

Mr. STAIR. I thought so.

Mr. PECORA. You merely thought so?

Mr. STAIR. Yes.

Mr. PECORA. What knowledge did you have?

Mr. STAIR. The knowledge that was brought to us by the controller.

Mr. PECORA. By the Controller of the Currency?

Mr. STAIR. No; the controller of the bank—the auditor, you may say.

Mr. PECORA. What was that knowledge? Do you recall that? What was the knowledge you acquired through that means?

Mr. STAIR. The knowledge that I acquired was through the annual statement of the Detroit Bankers Co.

Mr. PECORA. The Detroit Bankers Co.?

Mr. STAIR. Yes.

Mr. PECORA. You signed that annual statement, did you not?

Mr. STAIR. Yes, sir.

Mr. PECORA. It went out over your signature?

Mr. STAIR. Yes, sir.

Mr. PECORA. Did you prepare it?

Mr. STAIR. No, sir.

Mr. PECORA. Did you prepare the text of the report itself?

Mr. STAIR. No, sir.

Mr. PECORA. Who prepared it?

Mr. STAIR. I think it was prepared by Mr. Dodge.

Mr. PECORA. He was then a vice president of the bank?

Mr. STAIR. Vice president and auditor.

Mr. PECORA. Also a vice president of the Detroit Bankers Co.?

Mr. STAIR. I do not know whether he was or not. He was vice president of the First National Bank.

Mr. PECORA. So that there will be no confusion about it in either your mind or mine, are you now referring to the annual report of the Detroit Bankers Co. to its stockholders?

Mr. STAIR. Yes, sir.

Mr. PECORA. For the year 1932?

Mr. STAIR. Yes, sir.

Mr. PECORA. In this report of examination made as of November 1932, let me read the following statement, under the caption of "Loans and Discounts" [reading]:

Classification is indicative of the tremendous continued effort necessary to minimize loss. Examiner feels that bank has too many large dormant loans of a capital nature.

2. Policy loans which are usually an expensive type of business.
3. Old loans depending on guarantors who should be requested to pay or at least to properly collateralize their guarantee or substantiate.
4. Loans to officers and employees of small concerns collateralized by stock in their company wherein concentration of bank's loans represents practically the capital investment in the company.
5. Loans secured by Detroit Bankers stock.
6. Loans secured by list of stocks where bank has a large concentration of such stock and to liquidate loans would demoralize the market. Such loans should be placed on an orderly liquidation basis.
7. Loans depending on real estate equities and/or potential sale of vacant or improved real estate.
8. Loans predicated on receivables and concerns which are none too strong wherein no legal precaution is taken to prevent assignment of receivables to other creditors. This cannot be done in Michigan without notice.
9. Loans carried in loaning division which should be in special loan department and where bank should have their own representative on the ground dictating policies.
10. Loans on which the interest rate is not commensurate with the type of loan or high enough to encourage clean-up.
11. Loans on which interest is being paid wherein loss is practically a certainty in whole or in part and upon which payments should be applied on principal and interest. Notes taken and carried as nonledger assets.
12. Loans made to business concerns which carry good balances but in no manner strengthens or justifies personal loan.
13. Loans which loaning officers do not defend but which they are obliged to initiate and tolerate through the interference of directors. Examiner appreciates the abnormal times and realizes that bank cannot revolutionize in a short time practices which, although inconsistent with good banking principles, have been in force for years, but the sooner the bank gets on a discount basis and insists on periodic clean-up the better for both bank and borrower. In too many instances, it appears, officers are too timid or sympathetic in demanding payment or other requirements, and in some cases too optimistic in regard to return of real-estate values and large salaries.
14. Loans to directors, many of which are of long standing and which are undercollateralized or unsupported by statements.
15. Loans to officers and employees the reduction of which is not only disproportionate to the amount loaned, but appears disproportionate as to groups.

Are you familiar with the conditions reflected in that criticism in regard to loans and discounts in the bank in November 1932?

Mr. STAIR. I would not say that I am familiar with the loans individually. I believe there is a good deal of sound advice in that criticism, and that the bank was proceeding along that course.

The CHAIRMAN. What do you mean by "policy loan"?

Mr. STAIR. I do not know what they mean by policy loans.

Mr. PECORA. Have you never heard that term before?

Mr. STAIR. Well, yes.

Mr. PECORA. What did you understand by it?

Mr. STAIR. Policy loans?

Mr. PECORA. Yes; policy loans.

Mr. STAIR. I don't know. I have never been a policy man. I would not know how to define it.

Mr. PECORA. I have not asked you whether you ever participated—

Mr. STAIR. I suppose a loan probably might be made with a view of getting business or of getting influence or something of that kind; but so far as I know, in the board of directors or in the executive committee I never heard of anybody suggesting a policy loan.

Mr. PECORA. Apparently, according to the examiner's criticism here, there were many such policy loans in that bank.

Mr. STAIR. They might have regarded them as policy loans. I don't know of any policy loans.

Mr. PECORA. Would you regard loans made to public officers on inadequate collateral as policy loans or as coming within that category possibly?

Mr. STAIR. I would say it would be stupid loans.

Mr. PECORA. Do you know whether or not there were many such loans made by this bank?

Mr. STAIR. I heard of 5 or 6 of them.

Mr. PECORA. Only 5 or 6?

Mr. STAIR. That is all I knew about. Those were made to politicians.

Mr. PECORA. Those were made for what?

Mr. STAIR. To politicians.

Mr. PECORA. Do you make any distinction between politicians and public officers?

Mr. STAIR. There is not very much.

Mr. PECORA. Would you include judges in that category, Mr. Stair?

Mr. STAIR. Judges in Detroit are politicians. They have to be. They are elected to office.

Mr. PECORA. Then you would include them in that category?

Mr. STAIR. I would; yes.

Mr. PECORA. Did you know that there were a large number of loans made to judges by this bank?

Mr. STAIR. Those are the ones that I did know about.

Mr. PECORA. And they were policy loans?

Mr. STAIR. I would not say so, entirely. Some of the judges were very able and competent to pay.

Mr. PECORA. Do you know the status of any of those loans?

Mr. STAIR. I do not.

Mr. PECORA. Do you know how many such loans were made to judges?

Mr. STAIR. I do not.

Mr. PECORA. You spoke of knowing about 5 or 6 policy loans having been made.

Mr. STAIR. I would say about that, that I knew of.

Mr. PECORA. Did you know that there were loans made to 43 judges by your bank?

Mr. STAIR. I didn't know that there were 43 judges in that community.

Mr. PECORA. Well, apparently there were.

Mr. STAIR. I did not know it to that extent.

Mr. PECORA. What?

Mr. STAIR. No; I did not know of loans to that extent. I only knew of 5 or 6.

Mr. PECORA. Did they include judges practically throughout the whole system of your judiciary and of your courts?

Mr. STAIR. They were principally Detroit judges on the circuit bench and on the recorder's bench.

Mr. PECORA. Mr. Stair, according to an examination or research made of the books of the receiver of the First National Bank, the loans carried on the books on December 11, 1933, to judges aggregated the amount of \$639,631.23. Does that statement surprise you?

Mr. STAIR. It certainly does.

Mr. PECORA. Have you any opinion as to the reliability of these figures or the authenticity of them, or their accuracy?

Mr. STAIR. No. It seems almost inconceivable.

Mr. PECORA. Many of these judges were stockholders, were they not, of the Detroit Bankers Co.?

Mr. STAIR. That I do not know.

Mr. PECORA. Have you ever heard of any such thing?

Mr. STAIR. I cannot recall hearing of any of the judges except one owning stock of the bank.

Mr. PECORA. Who was that? Not stock in the bank, but in the Detroit Bankers Co.

Mr. STAIR. I understood Judge Tuttle owned some stock. He was a United States judge. That is the only one I knew of.

Mr. PECORA. Now let me read the following portion from the criticisms of the examiner in his report of examination in November 1932 under the caption of "Real Estate Mortgages" [reading]:

Exceed 50 percent of savings deposits. While no loss has been estimated at this time, with the present demoralized real-estate market, aggravated in this city, virtually a one-industry city, by an unprecedented orgy of real-estate speculation and the present tax situation it is inconceivable to anticipate anything but eventual substantial loss and the acquisition of a large amount of other real estate. Mortgage totals do not reflect the total potential other real estate as loans and discounts, and contain a large number of loans, the ultimate payment of which will depend on liquidation of mortgages on homes or industrial properties or the sale of the underlying properties.

Are you familiar with the condition indicated by that criticism?

Mr. STAIR. You mean, the general condition?

Mr. PECORA. Yes.

Mr. STAIR. I certainly am.

Mr. PECORA. Do you think the criticism was based upon a proper understanding and appreciation of existing general conditions?

Mr. STAIR. No doubt.

Mr. PECORA. Under the caption of "Other Real Estate" appears the following criticism in this report [reading]:

This constantly growing account, together with investment in bank building and loans under foreclosure exceeds bank's capital and over 50 percent of its surplus accounts, without taking into consideration the large amount of potential other real estate or the amount carried not due from banks in liquidation which it is bound to inherit. This presents a real and harzardous problem and a large potential loss.

Are you familiar with the condition indicated in that criticism, Mr. Stair?

Mr. STAIR. Reductions were under way and were being pursued vigorously——

Mr. PECORA. But is the condition referred to in this criticism a condition that you say existed at that time?

Mr. STAIR. No doubt it did.

Mr. PECORA. Let me read the following criticism in this report, under the caption of "Land Contracts" [reading]:

Over 50 percent are in default or under foreclosure. See real estate loans recapitulation. This is apparently due to a large extent to the past policy of selling properties with little or no down payment, wherein the so-called "purchaser" has little more invested than if he were paying rent, and too willing to turn back the property at a depreciated value. No particular reason was advanced why these contracts should be handled through the Detroit Trust Co., and I am inclined to believe bank could reduce the cost of collection by handling its own collections.

Are you familiar with the condition referred to in that criticism?

Mr. STAIR. No. This was in December, was it?

Mr. PECORA. The report was made in December of an examination made in November 1932.

Mr. STAIR. The bank had set up a collection department of its own, as I understand it.

Mr. PECORA. Well, perhaps that was done in response to the suggestion contained in this criticism.

Mr. STAIR. It might have been done before. That was a very vigorous department.

Mr. PECORA. If it were done before, would not that likely have become known to the examiner in the course of his examination?

Mr. STAIR. It should have been.

Mr. PECORA. You do not know whether it was done before this examination, do you?

Mr. STAIR. No.

Mr. PECORA. Would you say that the condition referred to by the examiner in this criticism was the existant condition?

Mr. STAIR. It must have been if he says so.

Mr. PECORA. Under the caption of "Due from banks in liquidation" appears the following criticism in this report [reading]:

Reserve set up is far from being adequate, and bank will sustain an additional large loss. In arriving at estimated worth of assets of the American State Bank you will note examiner accepted an appraisal which I deem to be very liberal. As previously reported, it does not appear that proper attention is being given toward liquidation of these assets. This is especially true in the case of the Redford Bank where a better collector should be put in charge.

Were you cognizant of those conditions?

Mr. STAIR. No, sir. That is a detail that I was not familiar with.

Mr. PECORA. Would you say that this criticism was warranted or unwarranted, or don't you know?

Mr. STAIR. I don't know.

Mr. PECORA. Under the caption of "Earnings and accruals" appears the following criticism or comment in this report [reading]:

When a loan is past due 30 days, bank reverses accrued interest to maturity date only. Interest is accrued on mortgage loans until date of foreclosure, but no reverse entries are made, and the accrued interest is carried in the other real-estate account. The charge-offs in this real-estate account have been negligible. In addition, approximately \$1,250,000 representing tax, insurance, and abstract advances have been added to the individual mortgage loans and is constantly being accrued. While the average loan in the bank is small, yet bank is accruing on about \$12,000,000 statutory mortgages as well as a large amount of other past-due loans. Interest is being accrued on \$30,000,000 due from banks on a 5-percent basis when it is known that bank must absorb an eventual dividend loss. During examination bank decided to set up a \$500,000 reserve against mortgage accruals and discontinue accruing on mortgages 90 days delinquent. This method will still leave anticipated earnings on a substantial amount of loans for a 6 or 9 months' period, and is not, in my estimation, the most commendable method of handling it. Their present method of accruing appears inconsistent, as they are on a semiaccrual and semicash basis. The examiner feels that bank is overestimating its earning power due to their present method of accrual and the accrual on loans as explained above, where they will be fortunate if they salvage the principal in time. Getting their commercial loans on a discount basis should eliminate part of the above criticism. With the exception of eight loans, interest is paid on checking accounts without deducting the amount of depositor's loan.

Were you familiar with the condition set forth in this criticism?

Mr. STAIR. No, sir.

Mr. PECORA. Have you any opinion as to whether or not this criticism was warranted by the facts?

Mr. STAIR. It is very easy to find fault and to criticise. That is the easiest thing a man can do. They are paid for that; that is their business. But they exaggerate—

Mr. PECORA. Do you think this is an exaggerated statement?

Mr. STAIR. I imagine some of those statements are exaggerated.

Mr. PECORA. What portion do you say is an exaggeration?

Mr. STAIR. On the accruals they cannot guess any more than the bank officials can guess as to what is a fair accrual.

Mr. PECORA. If it is a matter of guess work, what is your guess?

Mr. STAIR. I didn't have any.

Mr. PECORA. Why do you say their estimate is exaggerated?

Mr. STAIR. I say, probably.

Mr. PECORA. Oh.

Mr. STAIR. I have no direct knowledge.

Mr. PECORA. Under the caption of "Detroit Bankers Co." let me read this criticism in this report [reading]:

This company owns all the subject banks stock, and in addition to the \$3,783,000 loans held in subject bank, it has debts to other banks. Examiner refers you to large loan schedule for concentration of this stock held in subject bank. While this stock is quoted daily the market would absorb only a small amount, and too much value is placed on it for collateral purposes. This company is so closely affiliated with subject bank that it cannot be divorced. Its only income is from bank savings from which its creditors must be paid. Examiner refers you to the following remarks under "Dividends."

Would you say that that criticism was a fair statement of the existing fact?

Mr. STAIR. I would say it would be fair from their standpoint.

Mr. PECORA. Well, I am not asking you to estimate it from any particular standpoint but from a general standpoint.

Mr. STAIR. I should say it is a fair criticism.

Mr. PECORA. Under the caption "Dividends" let me read this criticism from this report [reading]:

Dividends paid by subject bank are paid into the Detroit Bankers Co., which in turn has been paying dividends to its stockholders. With the potential losses which subject bank faces it appears entirely unwarranted to be paying dividends to the public. In view of the fact that the Detroit Bankers Co. have other bank loans and their principal source of income is from subject bank, no effort was made by examiner to discontinue dividends of subject bank at this time, but it is distinctly understood and agreed that no further dividends will be paid to the holders of the Detroit Bankers Co. stock without first obtaining the permission of the Comptroller of the Currency. Examiner refers you to comparative earning and dividend report, showing dividends and losses less recoveries of subject bank over a 5½-year period ending June 30, 1932, exceed its earnings by \$14,951,459.

Are you familiar with the conditions referred to in this criticism?

Mr. STAIR. No, sir; I am not.

Mr. PECORA. Do you think that is a fair criticism?

Mr. STAIR. Not fair from what I had understood, that we were more than earning our dividend, and that the chief examiner did advise paying the January dividend, I am told; I was not there.

Mr. PECORA. You mean, January 1933?

Mr. STAIR. Yes.

Mr. PECORA. The dividend for the last quarter of 1932?

Mr. STAIR. Yes; that was advised, and it was understood then there would be no more dividends. Quite a number of the board were not in favor of paying dividends for some time, but they consulted with the Government authorities and they thought they should go on.

Mr. PECORA. Are you in position now, or have you the facts at hand which would enable you to dispute or controvert the statement made in this criticism, that over a 5½-year period ending on June 30, 1932, the dividends paid out by the bank exceeded its earnings, taking into account losses, less recoveries of the bank, by nearly \$15,000,000?

Mr. STAIR. I have no figures or no way of controverting it. My opinion is that it is not so.

Mr. PECORA. Is that opinion based upon a definite knowledge of the facts, or is it a mere assumption on your part?

Mr. STAIR. The knowledge that every time we paid a dividend our statements indicated that we had more than earned it. He has taken in supposititious losses there, not actual.

Mr. PECORA. Let us see if he has.

Mr. STAIR. He must have.

Mr. PECORA. He says [reading]:

Examiner refers you to comparative earning and dividend report showing dividends and losses less recoveries of subject bank.

Would that indicate that he was taking into account merely supposititious losses?

Mr. STAIR. I cannot tell how he arrived at that. My information always was that we were more than earning our dividend.

Mr. PECORA. That is merely based upon information you got through the medium of reports of conditions of the bank?

Mr. STAIR. Of our own auditor.

Mr. PECORA. Issued from time to time?

Mr. STAIR. Yes, sir. Personally I never would vote a dividend that was not earned.

Mr. PECORA. In declaring dividends or in the decisions which you reached as a director of the bank on resolutions to declare dividends was your decision influenced by earnings after deduction of losses charged off during the year?

Mr. STAIR. Losses were often charged from undivided profits.

Mr. PECORA. From surplus funds?

Mr. STAIR. Yes; and undivided profits or from contingent funds that they had.

Mr. PECORA. In basing a declaration of dividend upon your knowledge or information of earnings did you eliminate from consideration losses that had been charged off?

Mr. STAIR. That was my understanding.

Mr. PECORA. Whether the losses were charged off out of undivided profits or surplus or not?

Mr. STAIR. Always. That was my understanding always.

Mr. PECORA. That those losses were eliminated from consideration?

Mr. STAIR. Yes, sir.

Mr. PECORA. That is how you reached the conclusion that you have given expression to, that dividends were always justified by the earnings?

Mr. STAIR. I have always believed they were; yes.

Mr. PECORA. That was because charge-offs and losses were not set up against earnings, you reached that conclusion?

Mr. STAIR. I take it they were.

Mr. PECORA. That is inconsistent with the answer you just made to the previous question. What is the fact? What was the operation of your mind as a director with regard to the declaration of dividends?

Mr. STAIR. That they had been earned—more than earned.

Mr. PECORA. That the dividends had been earned?

Mr. STAIR. More than earned.

Mr. PECORA. And in computing or estimating the earnings no account was taken of charge-offs representing losses; is that right?

Mr. STAIR. I don't know whether account was taken or not.

Mr. PECORA. You do not know?

Mr. STAIR. No. I imagine—

Mr. PECORA. I am still puzzled, Mr. Stair, with regard to the testimony you want to give on that point. In answer to one question you said that those losses were eliminated from consideration.

Mr. STAIR. I imagine they were.

Mr. PECORA. And then you said you did not know whether they were or not. Now you say they were charged off or you suppose they were.

Mr. STAIR. I say, I imagine they were.

Mr. PECORA. You imagine so?

Mr. STAIR. Yes.

Mr. PECORA. Have you any specific knowledge as to the fact?

Mr. STAIR. None whatever. I never carried a slip of paper away from the bank with me; I never carried any statements with me.

Mr. PECORA. Then, as a director of the bank for many years, you are unable to tell this committee whether in voting for the declaration of dividends you were influenced by earnings without taking into consideration charge-offs representing losses that were made, from undivided profits or surplus funds?

Mr. STAIR. I always believed, and thoroughly believed, that the declaration of dividends was made from net earnings.

Mr. PECORA. In estimating or calculating the net earnings, was any consideration given to losses charged off during the year, either from surplus account or undivided profits?

Mr. STAIR. That I do not know. That would show in the surplus account.

Mr. PECORA. That you do not know?

Mr. STAIR. No, sir.

Mr. PECORA. Under the caption of "Directors' Loans", let me read to you the following criticism from the examiner's report of the November 1932 examination [reading]:

Examiner insisting on controller's requirement that loans not properly secured by marketable collateral be supported by current signed financial statements. Directors' statements must be on file for loans properly secured or collected. Classifications have been advanced in some cases during this exami-

nation on account of lack of statement. Authenticity of officers' verbal information is not the point in question. Neither is this verbal information acceptable.

What, in your view of the matter, is referred to in that item of criticism?

Mr. STAIR. My understanding was that a director, if he was not in active business, must supply collateral good and sufficient, and if he wanted to borrow any other way he must supply a statement.

Mr. PECORA. Where he originally furnished collateral; but the loan became undercollateralized through depreciation in collateral value; what then was done?

Mr. STAIR. Every effort was made to get good collateral, additional collateral; and in the two cases that I know about it was given. One man gave a mortgage on his home.

Mr. PECORA. Did you know what the condition was as to collateralization of loans to directors in the bank in November 1932?

Mr. STAIR. I cannot say that I did. I do not know even how many directors were borrowing.

Mr. PECORA. Was not the matter of making loans to directors brought up at directors' meetings whenever such loans were approved?

Mr. STAIR. No; it was brought up at executive committee meetings.

Mr. PECORA. The information concerning such loans was not regularly given to the board of directors?

Mr. STAIR. It might have been. The board consisted of about 90 men. There were conventions once a month. But I don't know that the directors' loans were discussed there; they were in the committee.

Mr. PECORA. By the way, Mr. Stair, now that you have referred to that fact, why was the board of directors of this bank made so large in number?

Mr. STAIR. Taking in so many banks in order to take care of the directors of the various banks that formed this board.

Mr. PECORA. Didn't that make for an unwieldy board?

Mr. STAIR. I think so.

Mr. PECORA. For the consolidated bank?

Mr. STAIR. I think so.

Mr. PECORA. Couldn't that be taken care of——

Mr. STAIR. It was taken care of.

Mr. PECORA. By proper regulation——

Mr. STAIR. It was taken care of.

Mr. PECORA. And action?

Mr. STAIR. It was taken care of.

Mr. PECORA. When?

Mr. STAIR. Well, it was taken care of the last of 1932.

Mr. PECORA. What was done at that time to take care of that situation?

Mr. STAIR. The number was reduced, I believe, over half. I am not sure.

Mr. PECORA. In 1932?

Mr. STAIR. 1932. That is for the meeting coming up.

Mr. PECORA. You mean for the annual meeting of 1933?

Mr. STAIR. Yes.

Mr. PECORA. There was no reduction made in the number during 1932?

Mr. STAIR. Yes; I think before that. I think, if you look it up, you will find they were reduced about half.

Senator COUZENS. You mean at the January 1933 annual meeting?

Mr. STAIR. No; I was not there at that meeting. I know the board was reduced. Part of it was by resignations. They were put onto the Detroit Bankers board, a lot of them.

Senator COUZENS. Was that during the calendar year 1932?

Mr. STAIR. I cannot remember just when it was done. I know it was done. Going to these meetings was incidental to me. It was not part of my business.

(At this point Mr. Murfin whispered to Mr. Stair.)

I have just been informed it was in January 1933. It was determined in 1932, but not until 1933 was it done.

Mr. PECORA. It did not take effect until 1933?

Mr. STAIR. Yes; the annual meeting. I think it was discussed for some time.

Mr. PECORA. Under the captain "Management" let me read to you the following criticism from this report of examination:

Examiner recognizes the improvement shown in this regard since last examination, but feels there is room for additional improvement. Outstanding weakness in some of loaning officers is discounting the future too much on borrowers' past accomplishments, placing too much strength in balances, fear of offending borrower or his friends, including directors, if his loan is called, contention that part of loans under his supervision are not of his making, and probably in some cases the decreased deficiency due to personal indifference, which may be conducive to sympathetic attitude which is apparent in many loans.

Would you say that that criticism was a fair one?

Mr. STAIR. I should say that that was a splendid criticism.

Mr. PECORA. Why was this condition allowed to develop, Mr. Stair?

Mr. STAIR. I tell you the banks were all being brought together and you had these things to contend with. We had a rather inactive management for quite a while. After the 1st of June, I believe it was, or some time in June or the 1st of July, they commenced to get coordination and cooperation.

Mr. PECORA. Now, the fear of the loaning officers to enforce a loan obligation against a borrower because of offending the borrower or his friends, including directors, is not due to the condition that you have referred to, is it?

Mr. STAIR. I cannot explain the psychology of any man's mind. It is possible that they were. I know most of the directors that I am familiar with were very meticulous about their loans, looking over security, and never ask about the rate. When I borrowed money I never asked what the rate was. I expected the going rate, no less, no more. I always took collateral. And I have always been an advocate of a director supplying good collateral unless he had an active business that would warrant his having a business loan.

Senator COUZENS. Was that true of all of the companies which the directors were managing?

Mr. STAIR. That I don't know.

Senator COUZENS. Was it true of the companies in which you were a member of the board?

MR. STAIR. You mean the Graham?

SENATOR COUZENS. Of the corporation or the industry borrowing from the bank on whose board you were a member.

MR. STAIR. The boards that I was on, the only one that borrowed money that I know of was the Graham, except one small company that I started my secretary and others in, and then I endorsed.

SENATOR COUZENS. And did the Graham Co. borrow?

MR. STAIR. I don't believe they have the last year. I don't believe they borrowed a nickel there for a year and a half, and when I borrowed money I put up collateral.

In this subpoena, Mr. Pecora, you asked questions. I don't know whether they are just formal or not, and I have had my secretary prepare an answer to all of them with regard to—they would probably be accurate.

MR. PECORA. Will you let me have the statement?

MR. STAIR. Yes, sir. [Handing document to Mr. Pecora.] And this is the subpoena, and I had my secretary draw it, too. All of my transactions are there. That is the stock holdings you have now. I belonged to Stair, Jordan & Serry, but not myself; that is my boy and two employees.

MR. PECORA. In compliance with item no. 1, embodied in the subpoena duces tecum served upon you, you were asked to produce all books, records, agreements, and documents pertaining to the following:

Any loans or advances made to you personally or to any corporation in which you were an officer, director, or majority stockholder, or to any pool, syndicate, or joint account in which you participated, by the Detroit Bankers Co., or by any of their units, between January 8, 1930, and February 11, 1933.

And in the typewritten statement that you have produced in response to that provision of the subpoena appears the following:

1. Ninety-day demand note for \$75,000 at 5¼ percent, of the Stair-Schubert Realty Co., to the First National Bank, dated February 10, 1930. It was paid by May 12, 1930.

That is a complete statement in answer to that provision?

MR. STAIR. Yes, sir.

MR. PECORA. The second item in the subpoena called for the production of such records, and so forth—

With regard to any sales, purchases, or other transactions of stock in the Detroit Bankers Co. or First Detroit Co. by you or any corporation or by any pool, syndicate, or joint account in which you participated, between January 8, 1930, and February 11, 1933.

The statement you make in response to that I will read from the typewritten document you have produced here:

On February 20, 1930, I received 5,619.4 shares of Detroit Bankers Co. stock, 1,600 shares for my 160 shares of Detroit Trust Co. stock, and 4,019.4 shares for my 900 shares of First National Bank stock, and I purchased six tenths of a share of Bankers to make my holdings 5,620 shares, from which I never sold a single share.

On June 3, 1930, I deposited with the Detroit Trust Co. 281 shares of Detroit Bankers in conformance with an agreement between trustees of the First National Co. and directors, said agreement dated January 10, 1930.

Purchases and sales of Detroit Bankers stock from January 8, 1930, to February 11, 1930, listed on attached schedule.

And is this the schedule to which that refers?

Mr. STAIR. Yes, sir; that is it.

Mr. PECORA. That is entitled "Purchases and sales of Detroit Bankers stock from January 8, 1930, to February 11, 1933."

"None from original holdings." The purchases shown on this schedule are of 200 shares in 4 blocks on June 19, 1930, which appear to have been sold on December 28, 1931.

Purchase of 50 shares on November 18, 1930, which appear to have been sold on December 16, 1931.

Purchase of 281 shares on November 18, 1930, which also appears to have been sold on December 16, 1931.

Purchase of 50 shares on March 28, 1931, which appears to have been sold on December 16, 1931.

Purchase of 100 shares on November 17, 1931, and of 381 shares on February 4, 1932, which do not appear to have been sold.

Mr. STAIR. That statement is my present holdings.

Mr. PECORA. Yes. Were those sales enumerated on this schedule, Mr. Stair, made in order to enable you to deduct capital loss from your taxable income?

Mr. STAIR. The sales were made to pay taxes. I am unfortunately a heavy real-estate holder there, and in December I needed the money very bad and I sold some stock. I got some money in and I bought back stock. I didn't take a very heavy loss on it, if I recall. I sold other stocks in December.

Mr. PECORA. Well, now——

Mr. STAIR (interposing). I paid about a 150 or 160 thousand taxes there, to show you I believed in the stock, or I would not have been buying it.

Mr. PECORA. Well, you sold all you bought with the exception of the last two purchases of 100 shares and 381 shares, respectively. You made those sales during the latter part of December 1931?

Mr. STAIR. Yes, sir.

Mr. PECORA. That is why I asked if those sales were made in order to enable you to offset capital loss against taxable income.

Mr. STAIR. They were made in order to get money to pay taxes. Taxes were very heavy, and, of course, I didn't object to taking the loss.

Mr. PECORA. You did not overlook that?

Mr. STAIR. I did not overlook it; no. I had a legal right to do it. That might have influenced me.

Mr. PECORA. I am not questioning that right.

Mr. STAIR. I certainly would not sell stocks at a profit.

Mr. PECORA. You would not sell stock at a profit?

Mr. STAIR. No.

Mr. PECORA. I don't know what you mean by that, Mr. Stair.

Mr. STAIR. Stocks that were going up were good stocks to hold, weren't they?

Mr. PECORA. You would not realize the profit by a resale?

Mr. STAIR. Well, not unless I needed money bad. To be candid, I don't think I needed any loss on account of Government taxes that year, because I had had heavy losses all along. I had lost five or six hundred thousand dollars in business, and I don't think I needed that loss. I don't think that had any bearing on it whatever.

Mr. PECORA. But whatever loss accrued you deducted from your taxable income?

Mr. STAIR. Yes. That is one of the years I did not pay any tax at all, and I was away behind so far as earnings were concerned.

Mr. PECORA. You had lots of illustrious company that year.

Mr. STAIR. Yes; and I lost a lot of money.

Mr. PECORA. A third provision in the subpoena called for the production by you of records showing your holdings of stock in any of the units of the Detroit Bankers Co. or the Detroit Trust Co. at the time of the acquisition of said units by the groups and the cost of such stock holdings to you, and that is answered in this typewritten statement that you produced under no. 3?

Mr. STAIR. Yes, sir.

Mr. PECORA. The fourth requirement of the subpoena was for the production of records of any transactions between you and the Detroit Bankers Co. or any of its units between January 8, 1930, and February 11, 1933. And your response to that from this typewritten statement you produced reads as follows:

At the time of the closing of the bank I owed nothing personally to any of the units of the Detroit Bankers Co., but was endorser on the note of George deB. Keim for \$125,000 at 6 percent, dated December 21, 1932, for 90 days, due March 20, 1933, which was collateralized with 4,000 shares of Abbotts Dairies, Inc., common stock, and 500 shares of Chandler & Co., Inc., first preferred stock. Took this note out of bank on June 27, 1933, by buying above stock for \$78,000 and having \$48,646.95 charged as an off-set against my personal charge of \$102,988.83, balance on February 11, 1933.

Also endorser on note of Stair, Jordan & Cerre, Inc., originally dated January 18, 1931, for \$15,000, which was reduced by payments on renewal dates until there was a balance due on February 11, 1933, of \$8,000, and their bank balance of about \$3,317.73 was off-set against the \$8,000.

Also guarantor on three notes of Detroit Transfer Co., as follows:

Date of original note, December 16, 1929, for \$10,000. Amount paid thereon, \$4,400. Balance due on February 11, 1933, \$5,600.

Note dated January 9, 1930, for \$28,000. Amount paid, \$4,400. Balance due on February 11, 1933, \$23,600.

Note dated February 10, 1930, for \$12,000. Amount paid, \$3,400. Balance due on February 11, 1933, \$8,600.

Showing an aggregate of face amount of the three notes of \$50,000, amount paid thereon aggregating \$12,200, balance due thereon on February 11, 1933, of \$37,800.

Mr. STAIR. That is a business of a nephew, and I offered to——

Mr. PECORA (after consulting an associate). Were you an officer or director during the year 1932 of a corporation called the Buhl Stamping Co.?

Mr. STAIR. A director.

Mr. PECORA. Did you know that that company had a direct loan amounting to \$130,000 in the bank in 1932?

Mr. STAIR. Endorsed by a very competent endorser, by L. D. Buhl. I remember when the loan came up and I was on the committee and I thought it should not be taken without an endorsement. That is Lawrence Buhl.

Mr. PECORA. Why wasn't that loan set forth in answer to the first provision of the subpoena, Mr. Stair, in your typewritten statement?

Mr. STAIR. Well, I think my secretary did not know about it and I overlooked it. I was not involved in that loan at all.

Mr. PECORA. The subpoena asked for the production of records relating to any loans or advances in which you were an officer, director, or majority stockholder.

Mr. STAIR. I just happened not to get it out of my books, that is all. My secretary did not know about it, lost sight of it. But I assure you that that loan was endorsed.

Mr. PECORA. Was it paid?

Mr. STAIR. I don't know whether it has been paid or not. Oh, I think it has. I think that has been taken out of there and is over in the new bank.

Mr. PECORA. Were you an officer or director of the Wabash Railway?

Mr. STAIR. Director.

Mr. PECORA. Did that railway have a loan in the bank during the year 1932?

Mr. STAIR. I don't know.

Mr. PECORA. Amounting to \$125,000?

Mr. STAIR. I don't know that they did. They might have.

Mr. PECORA. What?

Mr. STAIR. I don't know that they did. I think they had some participation in some loan that was floated in New York.

Mr. PECORA. In the national-bank examiner's report of his examination of the bank as of November 1932 such a loan is reported.

Mr. STAIR. Well, it must be a loan to the company.

Mr. PECORA. A loan of \$125,000 to the Wabash Railway, and you are listed as one of the officers or directors of the railway.

Mr. STAIR. I am a director, but had nothing to do with the loan. The loan was made in New York and partitioned among the banks along the line.

Mr. PECORA. And \$125,000 of it taken over by the First National Bank, Detroit?

Mr. STAIR. Probably, through its New York correspondent. Wasn't that paid up when the——

Mr. PECORA. And returned in the report of the examination of November 18, 1932, as an outstanding loan, as was also the \$130,000 loan to the Buhl Stamping Co.

Mr. STAIR. Both good. But I understand that the Wabash loan was made to the Hanover National Bank of New York and pieced out around among their correspondent banks, and the collateral was held by the Hanover Bank. As far as the Buhl loan is concerned, that was absolutely good. If it has not been paid, it is just as good as a Government bond.

Mr. PECORA. In the examiner's report of November 1932 examination you are listed as one of the directors of the bank under an indirect liability amounting to \$47,028.91. Do you recall the origin of that indirect liability?

Mr. STAIR. No, sir. I cannot imagine what it is.

Mr. PECORA. The total amount of directors' loans and direct liability reported by the examiner as of November 1932 appears to be \$6,588,192 plus an indirect liability aggregating \$2,634,273.58. Did you know of the amount of those loans?

Mr. STAIR. No; I was not there at that time.

Mr. PECORA. Did you know of that condition of affairs?

Mr. STAIR. No.

Mr. PECORA. Apart from the revealment of it by the national bank examiner?

Mr. STAIR. Did not. You remember that bank had 90 directors who were prominent manufacturers and business men. I would say that it was 98 percent good, at least.

Mr. PECORA. Ninety-eight percent of these loans good?

Mr. STAIR. I say, I am just guessing that they must be 98 percent good, the directors' loans.

Mr. PECORA. How long have those loan accounts been outstanding, Mr. Stair?

Mr. STAIR. I don't know.

Mr. PECORA. You say, you guess they are 98 percent good?

Mr. STAIR. Well, because of the character of the men that were directors.

Mr. PECORA. How long have these loans been outstanding?

Mr. STAIR. That I don't know.

Mr. PECORA. Do you know how much in the way of payments has been made on account of any of these loans at any time?

Mr. STAIR. No, sir.

Mr. PECORA. Do you know how they are collateralized?

Mr. STAIR. No, sir.

Mr. PECORA. I am going to offer in evidence, Mr. Chairman, the typewritten statements produced by the witness in response to the provisions of the subpoena duces tecum, and ask that they be marked in order in which they were taken up. I also introduce the pertinent portions of the subpoena.

(Portion of subpoena duces tecum was thereupon designated "Committee Exhibit No. 127, Feb. 1, 1934", and is as follows:)

COMMITTEE EXHIBIT No. 127, FEBRUARY 1, 1934

And you, the said E. D. Stair bring with you and have ready to produce before the Committee at the time and place aforesaid, all books, records, agreements, correspondence, and documents in your possession showing or pertaining to any of the following:

1. Any loans or advances made to you personally or to any corporation, in which you were an officer, director, or majority stockholder, or to any pool, syndicate, or joint account in which you participated, by the Detroit Bankers Company, Detroit Trust Company or by any of their units, between January 8, 1930 and February 11, 1933.

2. Any sales, purchases or other transactions in the stock of Detroit Bankers Company, or First Detroit Company by you or by any corporation or by any pool, syndicate, or joint account in which you participated, between January 8, 1930 and February 11, 1933.

3. Your holdings of stock in any of the units of the Detroit Bankers Company and/or Detroit Trust Company, at the time of the acquisition of said respective unit by said respective groups; and the cost of said stockholdings to you.

4. Any transactions between you and the Detroit Bankers Company, or any of its units between January 8, 1930 and February 11, 1933.

5. Any transactions in which you participated as an officer, director, or employee of the Detroit Bankers Company or any of its units between January 8, 1930 and February 11, 1933.

6. Also all books, records, agreements, correspondence, and documents of the Detroit Bankers Company or any of its units, in your possession.

(Statement of loans was thereupon designated "Committee Exhibit No. 128, Feb. 1, 1934", and appears in the record a few pages back, where read by Mr. Pecora.)

(Statement of purchases and sales of Detroit Bankers stock by Mr. Stair from Jan. 8, 1930, to Feb. 11, 1933, was thereupon desig-

nated "Committee Exhibit No. 129, Feb. 1, 1934", and appears in the record in full as follows:)

COMMITTEE EXHIBIT NO. 129—FEBRUARY 1, 1934

Purchases and sales of Detroit Bankers stock from January 9, 1930 to February 11, 1933

PURCHASES

Date	Certificate numbers	Cost
June 19, 1930, 100 sh. at \$111.....	O 24649-58.....	\$11,100.00
June 19, 1930, 30 sh. at \$112.....	O 24659-61.....	3,360.00
June 19, 1930, 10 sh. at \$112.....	O 24662.....	1,120.00
June 19, 1930, 60 sh. at \$112.....	O 24663-7 & O 245418.....	6,720.00
Nov. 18, 1930, 10 sh. at 94½.....	O 32140.....	948.75
Nov. 18, 1930, 40 sh. at 95.....	O 32141-4.....	3,800.00
Nov. 18, 1930, 281 sh. at 103.278.....	14340-1 & O 34118.....	29,021.27
Mar. 29, 1931, 50 sh. at 77¾.....	O 38615.....	3,912.50
Nov. 17, 1921, 100 sh. at 73.146.....	O 54271-80.....	7,314.60
Feb. 4, 1932, 381 sh. at 32.50.....	20741-3 & O 59276.....	12,382.50
		79,679.62

SALES (NONE FROM ORIGINAL HOLDINGS)

Dec. 28, 1931, 100 sh. at 30.....	O 24649-58.....	\$2,949.60
Dec. 28, 1931, 30 sh. at 30.....	O 24659-61.....	884.88
Dec. 28, 1931, 10 sh. at 30½.....	O 24662.....	296.21
Dec. 28, 1931, 60 sh. at 31.....	O 24663-7 & O 25418.....	1,829.76
Dec. 16, 1931, 10 sh. at 29½.....	O 32140.....	295.00
Dec. 16, 1931, 40 sh. at 29½.....	O 32141-4.....	1,180.00
Dec. 16, 1931, 281 sh. at 29½.....	14340-1 & O 34118.....	8,289.50
Dec. 16, 1931, 50 sh. at 29½.....	O 38615.....	1,475.00
		17,199.95

Mr. STAIR. I would like to know what the \$47,000 is.

Mr. PECORA. Well, perhaps if you consulted the records of the bank you might find out, because the examiner got that item from the records of the bank.

Mr. STAIR. But how can I consult the records of the bank?

Mr. PECORA. What is that?

Mr. STAIR. How will I get them?

Mr. PECORA. They were available to you as a director during the year 1932, I presume, weren't they?

Senator COUZENS. I think if you ask the receiver he will tell you about it.

Mr. PECORA. Mr. Stair, I have here what purports to be a copy of the printed annual report of the Detroit Bankers Co., to its stockholders for the year 1932, showing a combined statement of condition of its banking units at close of business on December 31, 1932. This report bears what purports to be your facsimile signature as president of the company. Will you look at it and tell me if you recognize it to be a true and correct copy of the annual report issued to the stockholders of the Detroit Bankers Co. for the year 1932?

Mr. STAIR. It is a facsimile of my signature, all right.

Mr. PECORA. Don't you recognize the report itself?

Mr. STAIR. It looks like it.

Mr. PECORA. I beg your pardon?

Mr. STAIR. It looks like the report. I would say so.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Annual report of Detroit Bankers Co., dated Dec. 31, 1932, was thereupon designated "Committee Exhibit No. 130, Feb. 1, 1934", and appears in full only in the Government Printing Office copy at the end of today's record.)

Mr. PECORA. I understood, in the earlier part of your examination today, you to say this report was not prepared by you.

Mr. STAIR. It was not.

Mr. PECORA. By whom was the report prepared?

Mr. STAIR. Prepared by the auditors of the bank and Mr. Dodge. I think he is vice president.

Mr. PECORA. When you say "prepared by the officers of the bank" do you mean——

Mr. STAIR. The auditor.

Mr. PECORA. The auditors of the bank?

Mr. STAIR. I cannot tell you just who prepared it. I imagine that the auditor prepared it, and it was brought over to my office and laid on my desk by Mr. Dodge.

Mr. PECORA. You read it and signed it?

Mr. STAIR. I asked him if he wanted it signed, and he said it was immaterial one way or the other. I looked it over, it looked pretty accurate, and I said, "I guess I better sign it", and I signed it.

Mr. PECORA. You signed it knowing that it was to be sent out as the annual report to the stockholders?

Mr. STAIR. I imagined it would be sent out at least to the directors.

Mr. PECORA. Only to directors?

Mr. STAIR. I didn't know. I said I imagined it would be sent to them. I didn't know who it was going to be sent to. Nothing was said about that. I didn't know even it was going to be published.

Mr. PECORA. Well, didn't you notice that it was addressed specifically to the stockholders of the Detroit Bankers Co.?

Mr. STAIR. I didn't notice it; no.

Mr. PECORA. Did you sign it without reading it?

Mr. STAIR. I read it.

Mr. PECORA. When you read it didn't you observe on the face of it at the very outset that it was addressed to the stockholders of the Detroit Bankers Co.?

Mr. STAIR. It did not impress me at all. I signed it as a matter of course because I believed that it was accurate. To the best of my knowledge and belief every statement made there was.

Mr. PECORA. What knowledge did you have of the accuracy of this statement?

Mr. STAIR. Just the statement that was given to me.

Mr. PECORA. The knowledge you got of the accuracy of the statement is that given to you by the statement itself; is that it?

Mr. STAIR. Absolutely.

Mr. PECORA. You have no other knowledge?

Mr. STAIR. No other knowledge.

Mr. PECORA. In other words, you assumed that it was?

Mr. STAIR. I believed that it was absolutely true, and I still believe it.

Mr. PECORA. You believed and assumed that it was absolutely true because it was set forth in the statement——

Mr. STAIR. Because I had every faith in it.

Mr. PECORA. Presented to you for your signature——

Mr. STAIR. Yes; because I had every faith in it.

Mr. PECORA. By Mr. Dodge?

Mr. STAIR. Yes; I had every faith he was giving me an accurate statement.

Mr. PECORA. In the combined statement of condition in the banking units at close of business December 31, 1932, which appears in this annual report of the Detroit Bankers Co. for the year 1932, which has been received in evidence as exhibit no. 130, why was there not included a statement of the condition of the units of the Detroit Bankers Co. other than banking units?

Mr. STAIR. That I don't know.

Mr. PECORA. There were such other nonbanking units that were owned by the Detroit Bankers Co., were there not?

Mr. STAIR. Yes. But I imagine that Mr. Dodge was following precedent.

Mr. PECORA. Well, if he was following precedent, was it a precedent that you were familiar with as a director of the Detroit Bankers Co. for some time prior to 1932?

Mr. STAIR. I don't get you there.

Senator COUZENS. Repeat the question.

The SHORTHAND REPORTER [reading]:

If he was following precedent, was it a precedent that you were familiar with as a director of the Detroit Bankers Co. for some time prior to 1932?

Mr. STAIR. I would not say that I was familiar with the precedent, but it was because I believed his statement to be accurate and true. I signed it without question.

Mr. PECORA. I am not discussing that question with you at this moment. I will come to that subsequently. I am asking you specifically why, in the combined statement of condition at the close of business December 31, 1932, there was not included a statement of the condition of the units of the Detroit Bankers Co. other than banking units?

Mr. STAIR. I don't know why it was not included.

Mr. PECORA. You realized that as president of the company this annual report to its stockholders was going out over your signature, didn't you?

Mr. STAIR. Realized it was going out?

Mr. PECORA. Over your signature?

Mr. STAIR. Yes, sir.

Mr. PECORA. And that a stockholder reading it would accept it upon your responsibility as president of the company?

Mr. STAIR. No; I think more upon the board of directors.

Mr. PECORA. Didn't you consider the stockholder would attach any responsibility to your identification with the company as its president?

Mr. STAIR. I hoped some of them would at least.

Mr. PECORA. Well, now, as president of the company and with some realization of that responsibility which you felt the stockholders looked for in you as president of the company, can you tell

the committee why the condition of the nonbanking units of the Detroit Bankers was not shown in this combined statement of condition?

Mr. STAIR. I don't know any reason for their not being shown or any reason for their being shown.

Mr. PECORA. Who is responsible for the fact that they were not shown?

Mr. STAIR. The men who prepared the statement.

Mr. PECORA. Didn't you consider you had some responsibility in the matter as president of the company?

Mr. STAIR. I had every faith in the men who were preparing it, and I had no ability as a bookkeeper or an accountant. I could not go and check over everything. I believed.

Mr. PECORA. Would it be necessary for you to have any experience as a bookkeeper or accountant in order to determine the policy of whether or not in the annual report to the stockholders of the company information of the financial condition of the nonbanking units of the company should be given to them?

Mr. STAIR. I say I know of no reason why they should not, or know of no reason why they should.

Mr. PECORA. Well, who was responsible for the policy of not including that information in the annual report?

Mr. STAIR. That I don't know.

Mr. PECORA. That you don't know at all?

Mr. STAIR. No, sir.

Mr. PECORA. Did you consider that you were merely the nominal head of the company while you were functioning as its president?

Mr. STAIR. That I was what?

Mr. PECORA. That you were merely——

Mr. STAIR. No, sir.

Mr. PECORA. The nominal head of the company while you were functioning or acting as its president?

Mr. STAIR. I was an honorary officer for the purpose of reducing expenses.

Mr. PECORA. Was the office of president regarded as an honorary office?

Mr. STAIR. It was as set up then.

Mr. PECORA. Who was the executive head then under the set-up that was made?

Mr. STAIR. Mr. Mills and Mr. Dodge.

Mr. PECORA. What office did Mr. Mills hold in the Detroit Bankers Co. in 1932 at the time that you became its honorary president, as you choose to call it?

Mr. STAIR. He was the chairman.

Mr. PECORA. Chairman of the board?

Mr. STAIR. Yes, sir; I believe so.

Senator COUZENS. Of the Detroit Bankers?

Mr. STAIR. No; of the First National Bank.

Mr. PECORA. I am talking about the Detroit Bankers Co.

Mr. STAIR. Yes.

Mr. PECORA. Not the First National Bank, Mr. Stair.

Mr. STAIR. I don't know what his position was, but he was executive head of the operating company and cutting down the expenses in this particular organization.

Mr. PECORA. Well, now——

Senator COUZENS (interposing). As a matter of fact, he was not an officer of the Detroit Bankers Co. at that time, as I understand it.

Mr. STAIR. I don't believe he was. We just regarded this company as a holding company without any particular function.

Mr. PECORA. You say you regarded the Detroit Bankers Co. as a holding company without any particular function?

Mr. STAIR. Yes; or without any operating function.

Mr. PECORA. Without any operating function?

Mr. STAIR. Yes, sir.

Mr. PECORA. Well, you knew that the Detroit Bankers Co. was virtually the sole stockholder of all the banking units, didn't you?

Mr. STAIR. Yes; but it was not operating, except as to auditing and looking after insurance and minor work.

Mr. PECORA. What was the annual salary roll of this nonoperating company?

Mr. STAIR. At the time that Mr. Ballantyne resigned it was over \$40,000 a month.

Mr. PECORA. And over half a million dollars a year?

Mr. STAIR. Yes, sir; and, according to my memory, it was reduced to about \$18,000 a month, and with still further reductions in view.

Mr. PECORA. And even after the reduction to about \$18,000 a month, that gave you a salary roll of close to a quarter of a million dollars a year.

Mr. STAIR. Well, we had——

Mr. PECORA (continuing). For a company that you say was not actively operating.

Mr. STAIR. Not operating. They were an auditing company, and looking after insurance; auditing all the units.

Senator COUZENS. Well, as a matter of fact, after you reduced the roll from \$40,000 a month to about \$18,000 a month they discontinued the auditing of the units, didn't they?

Mr. STAIR. No; not at that time.

Senator COUZENS. When did they discontinue that work?

Mr. STAIR. As to that I don't know.

Senator COUZENS. Mr. Verhelle testified here that they discontinued the auditing.

Mr. STAIR. I didn't so understand it; but if Mr. Verhelle says so, it must have been so.

Senator COUZENS. That was how he accounts for the records having been removed from the Detroit Bankers Co.

Mr. STAIR. Well, I was not active there. The details I haven't in mind, and never had them.

Mr. PECORA. As a matter of fact, Mr. Stair, do you know whether or not the nonbanking units of the Detroit Bankers Co. operated at a loss or at a profit during the year 1932?

Mr. STAIR. I don't know.

Mr. PECORA. You don't even know that?

Mr. STAIR. No.

The CHAIRMAN. Did you know the condition of the nonbanking units at the time this report was made?

Mr. STAIR. No.

Mr. PECORA. Do you know how many nonbanking units it had at the close of the year 1932?

Mr. STAIR. I think there were two, but I am not sure.

Mr. PECORA. Just how much time from your general business affairs did you give to the discharge of your duties as president of the Detroit Bankers Co. during the year that you served as its president?

Mr. STAIR. I was president for about 6 months, I guess, or a little over. I gave no time whatever, and it was so understood I was not to give any of my time, except to preside at the meetings.

Mr. PECORA. At the meetings of the board of directors?

Mr. STAIR. Yes, sir.

Mr. PECORA. Well, how much time did you give from your general business affairs to the discharge of your duties as a director of the First National Bank during the time that it was one of the units of the Detroit Bankers Co.?

Mr. STAIR. I went to all of the meetings when I was in town, unless something unusual kept me away. I tried to be regular in my attendance.

Mr. PECORA. Likewise, with respect to your functions as director of the Detroit Trust Co. during that period of time?

Mr. STAIR. Yes, sir; I thought I was fairly faithful.

Mr. PECORA. And that faithfulness consisted in your attendance at meetings of the board?

Mr. STAIR. And in entering into discussions. So far as the details of the bank were concerned, I knew nothing, or not any further than as they came up to the committees.

Mr. PECORA. And is the testimony that you have given here today with respect to the knowledge about which you have been asked, that you had regarding the business affairs of the Detroit Bankers Co. and the business affairs of the two unit banks of which you were a director, fairly typical of the understanding and knowledge you had of the affairs of the company generally as well as of the two banks?

Mr. STAIR. I did not quite get that question, Mr. Pecora.

Mr. PECORA. Well, I have asked you many questions today with regard to certain activities or with regard to conditions existing in the First National Bank, and you know to what extent you have been able to answer those questions, or as to where your answers were based upon personal knowledge, don't you?

Mr. STAIR. Yes, sir; and according to memory. As president of the Detroit Bankers Co. I was simply the means of reducing the expenses and getting it out of an operating position. I did not promise, nor did I expect, one penny of remuneration, and I did not accept any remuneration. I never occupied the office itself, never was at the desk. I depended entirely upon the men who were operating the bank to operate the bank.

The CHAIRMAN. Evidently you were about the only honorary officer who did not receive any pay.

Mr. STAIR. What was that, Mr. Chairman?

The CHAIRMAN. I say you were about the only honorary officer who served without pay.

Mr. STAIR. Well, I don't know as to that. I know that I wasn't rendering service, and I would not accept pay.

The CHAIRMAN. Did anybody else do that? In other words, you were the only honorary officer serving without pay?

Mr. STAIR. I think it may be that is so. I do not think there were any other honorary officers.

The CHAIRMAN. I would judge from the size of the pay roll that that is about so.

Mr. STAIR. I talked to Mr. Dodge about this statement, and he says it is absolutely accurate [pointing to a paper Senator Couzens was reading].

Mr. PECORA. Did you know that the figures showing the financial condition of the nonbanking units of the Detroit Bankers Co., as of December 31, 1932, were available?

Mr. STAIR. Did I know that they were available?

Mr. PECORA. Yes.

Mr. STAIR. I imagine they were.

Mr. PECORA. Did you know that such figures had been included or incorporated in the annual report for 1932 filed in behalf of the Detroit Bankers Co. with the Michigan Securities Commission?

Mr. STAIR. I did not know it.

Mr. PECORA. Did you know anything about the annual report for the year 1932 that was filed with the Michigan Securities Commission on behalf of the Detroit Bankers Co.?

Mr. STAIR. I did not know it.

Mr. PECORA. Do you know whether or not you signed such a report?

Mr. STAIR. I do not recall signing such a report.

Mr. PECORA. The fact of the matter is, as appears from a photostatic copy of that report, that it was not signed by you but was signed by the vice president, Mr. McPherson Browning, as well as by the secretary. Now, do you know of any reason why you were asked to sign the annual report to the stockholders of the Detroit Bankers Co., but were not asked to sign the report of that company to the Michigan Securities Commission?

Mr. STAIR. I do not know, Mr. Pecora. The fact of the matter is that I do not know anything about that statement.

Mr. PECORA. Do you know what the condition of the Detroit Bankers Co. was as shown by the report for the year 1932 filed with the Michigan Securities Commission?

Mr. STAIR. No, sir; I do not.

Mr. PECORA. Do you know whether or not the annual report of the Detroit Bankers Co. to its stockholders for the year 1932, a copy of which you have identified here, was ever discussed at a meeting of the board of directors of the Detroit Bankers Co. before it was sent out?

Mr. STAIR. I was told that it had been passed, and it was brought over to me and laid on my desk.

Mr. PECORA. Is that all that you know about it?

Mr. STAIR. That is all that I know about it.

Mr. PECORA. You do not know whether it was discussed at a meeting of the board of directors?

Mr. STAIR. I do not. I imagine it was. It says: "By order of the board of directors."

Senator COUZENS. I notice in reading this report that you have a statement of operating results of the First National Co. building and garage, and of the First Detroit Co. but that there is no men-

tion made of the First National Co. Do you know how that happens to be?

Mr. STAIR. I haven't the slightest idea, unless they were following precedent. I just don't know.

Senator COUZENS. They seem to have included a statement in this annual report, committee exhibit no. 130, of the First National Bank building and garage, the First Detroit Co., and the Detroit Bankers Safe Deposit Co., but have made no mention of the First National Co., which was the company that, as I understand the previous testimony indicated, put the Detroit Bankers Co. into a debt of something like $7\frac{1}{2}$ million dollars.

Mr. STAIR. That debt was acquired long before I was on the board of directors. I do not know anything about it.

Mr. PECORA. Do you know anything about the origin of that indebtedness of \$7,200,000?

Mr. STAIR. I do not. I happened to be, prior to that time, one of the objectors to the company being constituted; that is, its board, entirely of officers. But I knew nothing about operations inside.

Mr. PECORA. Mr. Stair, did you ever discuss the contents of this annual report of 1932 to the stockholders of the Detroit Bankers Co. with any of the other directors of the company?

Mr. STAIR. I did not.

Mr. PECORA. Was it ever considered at any meeting of the board of directors of the Detroit Bankers Co.?

Mr. STAIR. I do not know that. At about the time that that was laid on my desk I made a copy of my signature, and I wasn't very well, and started motoring to California. Whatever was discussed, I don't know.

Mr. PECORA. Now, Truman H. Newberry was one of the directors of the Detroit Bankers Co., wasn't he?

Mr. STAIR. Yes, sir.

Mr. PECORA. You say this report, which you signed as president of the company, was prepared and placed before you for your signature by Mr. Joseph M. Dodge, vice president of the First National Bank?

Mr. STAIR. I understand that he had the final compiling of it.

Mr. PECORA. I have before me what purports to be a photostatic copy of a letter addressed to Mr. Dodge by Truman H. Newberry, dated January 17, 1933, in which, after acknowledging receipt of a copy of this annual report to stockholders for 1932, he makes the following statement:

It was probably wise to omit any reference to the First National Co. or its successor, the Assets & Realization Co.

Can you conceive of any idea or opinion why that—

Mr. STAIR (interposing). I haven't the slightest.

Mr. PECORA (continuing). Was considering the wise thing to do?

Mr. STAIR. I haven't the slightest idea why it was done or why it should not have been done. It was never discussed with me. I signed the statement.

Mr. PECORA. Now, in the annual report for the year 1932, filed with the Michigan Securities Commission, by the Detroit Bankers Co., there appears a charge-off of notes receivable, made during the year, in the sum of \$3,100,000. Are you familiar with that item?

Mr. STAIR. No, sir.

Mr. PECORA. Do you know what that charge-off was due to?

Mr. STAIR. No, sir.

Mr. PECORA. Do you know what accounts receivable were charged off?

Mr. STAIR. I do not.

Mr. PECORA. Do you know that it was an account receivable from the First National Co.?

Mr. STAIR. I do not know.

Mr. PECORA. Do you know anything about that note?

Mr. STAIR. I do not know anything about that transaction.

Mr. PECORA. Could a charge-off of \$3,100,000 in accounts receivable be made by the Detroit Bankers Co. during the year 1932, throughout all of which time you were a director and during the greater part of which time you were the president of the company, without your knowing anything about it?

Mr. STAIR. It might be and apparently was.

Mr. PECORA. Do you know anything today about this charge-off?

Mr. STAIR. No, sir.

Mr. PECORA. Are you now hearing about it for the first time?

Mr. STAIR. I am now hearing about it for the first time.

Mr. PECORA. Did the stockholders of the Detroit Bankers Co., or were they ever told while you were the president of it, that you were merely an honorary president, as you called yourself this afternoon?

Mr. STAIR. Well, I don't know.

Mr. PECORA. Well, you know they were not given any such information, don't you?

Mr. STAIR. I never gave anybody any information, except when somebody congratulated me I said, "Well, I am not active." It was more or less the means of reducing expenses. The work is being done inside by the bank officials.

Mr. PECORA. Do you know what the reduction was in the surplus of the Detroit Bankers Co. during the year 1932?

Mr. STAIR. No, sir.

Mr. PECORA. Do you know that it was over 9 million dollars?

Mr. STAIR. I do not.

Mr. PECORA. Did you know that there was a reduction in the surplus during that year of any amount?

Mr. STAIR. Why, I believe there was a reduction. But what was that in?

Mr. PECORA. I am referring now to the Detroit Bankers Co.

Mr. STAIR. No; I do not.

Mr. PECORA. Well, from the annual report for the year filed with the Michigan Securities Commission, such reduction of surplus, in a sum of over 9 million dollars, is set forth. And I am assuming that this report is accurate. Yet you know nothing about it?

Mr. STAIR. I assume it is accurate if it was made by those men.

Mr. PECORA. But you know nothing about that reduction in surplus having occurred during the year that you served——

Mr. STAIR (interposing). I did not serve a year.

Mr. PECORA. Well, during the year in which you served for a part of the time as the president of the company, in fact for the greater part of the year?

Mr. STAIR. Yes.

Mr. PECORA. That is the situation, is it?

Mr. STAIR. Yes, sir; that is the situation.

Mr. PECORA. Mr. Stair, is there any statement or any other evidence you want to give to this committee without being asked specifically about it?

Mr. STAIR. I do not know that there is particularly, thank you. I was a layman, and I allowed myself to be used for the benefit, as I supposed, of the bank.

Mr. PECORA. Well, you were a layman in what sense?

Mr. STAIR. I was inactive.

Mr. PECORA. Were you a layman so far as the bank's operations were concerned?

Mr. STAIR. I was a director. I attended directors' meetings, and entered into discussions, and then I was through.

Mr. PECORA. Well, would you characterize yourself as a layman?

Mr. STAIR. Yes, sir.

Mr. PECORA. In so far as the banking field is concerned?

Mr. STAIR. As far as the banking field is concerned, yes; because I was not a banker.

Mr. PECORA. Judge Murfin, will you take the stand?

The CHAIRMAN. Mr. Pecora, are you now excusing Mr. Stair?

Mr. PECORA. Do you want to say anything further, Mr. Stair?

Mr. STAIR. Are you now excusing me?

Mr. PECORA. I think so.

The CHAIRMAN. All right. Mr. Stair, you will now be excused.

Mr. STAIR. Thank you.

Mr. PECORA. Mr. Murfin, will you come forward?

The CHAIRMAN. Judge Murfin, please stand, hold up your right hand, and be sworn:

You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. MURFIN. I do.

TESTIMONY OF JAMES O. MURFIN, DETROIT, MICH.

Mr. PECORA. Judge Murfin, will you give your full name, address, and business or occupation to the committee reporter for the purpose of the record?

Mr. MURFIN. James O. Murfin, Detroit, Mich.; lawyer.

Mr. PECORA. Were you at one time holding any official office?

Mr. MURFIN. I was a circuit judge in Michigan from the spring of 1908 until the fall of 1911, when I resigned to go back into practice.

Mr. PECORA. You have been in attendance before this committee during its sessions today, have you?

Mr. MURFIN. I have.

Mr. PECORA. And you have heard all of the testimony that has been introduced here today?

Mr. MURFIN. I have.

Mr. PECORA. Did you hear the testimony of Mr. Stair, the preceding witness, with respect to the appointment of a committee to

inquire into the matter embodied in a so-called "private and confidential memorandum", addressed by Mr. Verhelle to Mr. Mills chairman of the board of the First National Bank, dated May 18 1932, and which has been received in evidence before this committee as exhibit no. 95?

Mr. MURFIN. I heard Mr. Stair's testimony, but I think he was guilty of one error. The committee as appointed consisted of myself, Truman Newberry, Lawrence Butler, and when we were making a preliminary canvass of this matter, I myself suggested that we should have George Pipper, the bank auditor, to render us assistance. So, Pipper, while not originally appointed by my suggestion, did come and sit with the committee, and bring reports and data, and gave assistance as we wanted it. Pipper came at my suggestion not as an original appointment, but as I have stated.

Mr. PECORA. There was produced by Mr. Mills, who has also been in attendance at this hearing today, photostatic copies of two reports, both of which were introduced in evidence, as you doubtless recall.

Mr. MURFIN. I do.

Mr. PECORA. One of these reports was signed by you in conjunction with Mr. Mills, Mr. Newberry, and Mr. Butler, as well as by Mr. Pipper, and that is the one dated May 25, 1932.

Mr. MURFIN. Correct.

Mr. PECORA. And the other report you did not sign because of your illness at the time.

Mr. MURFIN. That is correct.

Senator COUZENS. Mr. Murfin, did you read this confidential memorandum when it was referred to your committee?

Mr. MURFIN. Oh, yes. I do not know what the other members of the committee did, but I had that report for 2 or 3 days and made lead pencil notes on it, as to where I wanted to ask specific questions about it before the meeting.

Senator COUZENS. Have you a copy of that report on which you made pencil memorandums?

Mr. MURFIN. I do not know whether I have or not.

Senator COUZENS. If you have, we would like to see it.

Mr. MURFIN. I think I have it [looking in his portfolio]. Yes here it is [handing it to Mr. Pecora]. I assume I will get that paper back.

Mr. PECORA. Yes, you may have it back. I ask that it may be marked for identification, Mr. Chairman.

Mr. MURFIN. I do not think you will find much that you can decipher in my pencil memoranda, for I doubt if any human being in the world could read them.

Mr. PECORA. Well, we may ask you to read them for us.

Mr. MURFIN. And I will be very glad to do it.

Mr. PECORA. Mr. Chairman, I now ask to have this paper marked for identification.

The CHAIRMAN. That may be done.

(The witness' copy of the private and confidential memorandum made by Mr. Verhelle and addressed to Mr. Mills, as chairman of the board of the First National Bank, dated May 18, 1932, was marked

"Committee Exhibit No. 131 for identification, Feb. 1, 1934," and was returned to the witness after being used by Mr. Pecora.)

Mr. PECORA. Now, Judge Murfin, on page 6 of the copy which you have produced of this private and confidential memorandum, which corresponds to that copy thereof which has been received in evidence here as Committee Exhibit No. 95 as of January 26, 1934, I notice this marginal notation in lead pencil, appearing twice:

Explain this.

Mr. MURFIN. That, doubtless, refers to something about which I wanted to get information.

Mr. PECORA. And on page 9 I find a question mark and a check mark, alongside the following paragraph:

The commercial account of the Wise Chrome Products Co. was overdrawn \$201.84 from March 16, 1932. This overdraft is chronic, and is said to be authorized by Mr. Sweeny.

Senator COUZENS. Judge Murfin, did you find that that was authorized by Mr. Sweeny?

Mr. MURFIN. We found that it was not authorized by Mr. Sweeny; and some man, whose name has now escaped me, was brought in by Mr. Pipper, and he testified before our committee that he, contrary to Mr. Sweeny's express instructions, had permitted that overdraft.

Mr. PECORA. Judge Murfin, did you find that overdrafts in that account of the Wise Chrome Products Co. were chronic?

Mr. MURFIN. Now, I have not had a chance to go over this at all. I just got my subpoena on yesterday at 10:30. But there was some question about overdrafts, in which Mr. Sweeny was charged with having permitted them, and of there having been chronic overdrafts, and in which this other man, and I think he was a branch-bank manager, and I am not sure of his name, but he came in and said he was responsible for the overdrafts in spite of Mr. Sweeny's instructions to the contrary. Whether they had that account or not I just cannot recall those names.

Mr. PECORA. Now, Judge Murfin, let me call your attention to the fact that the extract that I have read to you from page 9 of your copy of this private and confidential memorandum, and alongside which this question mark appears, is not the language or comment by Mr. Verhelle, but is a quotation by him from a report of the auditors of the bank.

Mr. MURFIN. Oh! I don't remember that.

Mr. PECORA. Well, that appears from the text of the private and confidential memorandum.

Mr. MURFIN. Well, what of it?

Mr. PECORA. He says:

The auditors further reported on January 14, 1932: "Wise Chrome Products Co. pay-roll account. Chronic overdrafts and deposits to cover. O.K.'s by Mr. Sweeny."

And then continuing the quotation from the auditors' report, on page 9:

Wise Chrome Products Co. deposits to cover chronic O.D.'s.

Meaning chronic overdrafts, doesn't it?

Mr. MURFIN. Yes, sir.

Mr. PECORA (continuing) :

It was again referred to Alfred T. Wilson on April 14, 1932, the following being the extract:

"Commercial account of the Wise Chrome Products Co. was overdrawn \$201.84 from March 16, 1932. This overdraft is chronic and is said to be authorized by Mr. Sweeney."

Mr. MURFIN. And it turned out that it was not.

Mr. PECORA. Did you examine the auditors who originally reported, several months prior to the confidential investigation made by Mr. Verhelle, as to whether these overdrafts were chronic and were okayed by Mr. Sweeney?

Mr. MURFIN. Mr. Pipper was the chief auditor of the Group, of the bank. He had been with the old Wayne County Bank, and he sat with the committee and rendered us every possible assistance. What better person could we have had than the chief auditor?

Mr. PECORA. You might have questioned the auditors who made the report.

Mr. MURFIN. I cannot tell you who we questioned now. A lot of water has gone over the dam in this banking business since that committee met.

Mr. PECORA. On page 17 of your copy of this private and confidential memorandum of Mr. Verhelle's there appears lead-pencil marginal notation [and Mr. Pecora stops as if unable to read something].

Mr. MURFIN. If you can read my writing, you are a handwriting expert. Do you want help?

Mr. PECORA. I am afraid I will have to ask for your help. I can read some of it, but I would like to have the entire notation read.

Mr. MURFIN. It says—

Who made, when made, and how secured.

Mr. PECORA. That appears alongside the following matter appearing on page 17 of the exhibit in evidence, consisting of your copy of that private and confidential memorandum:

Charles H. Nevins, who was involved in approximately 58 mortgages in the mortgage department, a large number of which have had no payments since 1927, 1928, 1929, and 1930 is indebted to the commercial department in the sum of approximately \$10,000, which was obtained by him in the middle of 1931. According to the average balance card the average balance in 1931 was \$400. Such a loan is, of course, out of order. His full relations with the General Building Corporation are not known, but the records indicate that he has a mortgage assumed by the General Building Corporation. This mortgage was later assumed by Sam Dickman. The last principal payment was made in July of 1930, and interest is now in arrears since February 15, 1932.

Is that correct?

Mr. MURFIN. That is correct.

Mr. PECORA. What did you find with regard to that criticism appearing in Mr. Verhelle's private and confidential memorandum?

Mr. MURFIN. I have no recollection whatsoever. But if I may suggest something—and if I am out of order you will correct me—when this report was brought before this committee and the papers were brought in, Mr. Sweeney—and he is very sick, by the way, and is in a very serious condition, I am afraid—was very much disturbed about it, and wanted to know where the report of our committee was. He had had a copy given to him months ago, and he wanted to know

what he could do about it. He was much disturbed because his doctor would not let him come down here, and I suggested that he make a typewritten statement of his recollection of all these charges. He made such typewritten statement and he gave a copy of it to Mr. Mills, and yesterday, half an hour before coming to the train, his secretary gave me a copy of it. I have not read it, and if you want it I will give it to you.

Mr. PECORA. Is it in verified form?

Mr. MURFIN. I don't know. I don't think it is [taking a paper from his portfolio]. No; it is not.

Mr. PECORA. If you will produce a statement in verified form, let us have it.

Mr. MURFIN. Well, this was just dictated from his bed to his secretary, and that is all that I know about it.

Mr. PECORA. But, Judge Murfin, you know that the testimony given here is given under oath.

Mr. MURFIN. I appreciate that.

Mr. PECORA. And if anything given here under oath is to be controverted, it has to be controverted under the sanction of an oath.

Mr. MURFIN. I do not believe that if I were to refer to Mr. Sweeny's statement, which I have had no chance to do, it would refresh my memory a particle about this specific inquiry. This was in 1932. That is a long time ago and a lot of things have happened.

Mr. PECORA. Judge Murfin, was Mr. Verhelle brought face to face with Mr. Sweeny and Mr. Bodde, these other officers of the bank whose activities and conduct are made the subject of his private and confidential memorandum, either by you or any other member of the special committee?

Mr. MURFIN. I only participated in the inquiry into Mr. Bodde and Mr. Sweeny, and at that inquiry Mr. Verhelle was not sent for. May I ask, Mr. Pecora: You have made the suggestion that if Mr. Sweeny would swear to this matter you would receive it. If he would swear to this statement that I have would the committee receive this? Mr. Sweeny is really quite worried. He stands very high indeed in our community, and he has had a wonderful reputation, which he prizes very much, and he is worried about the blackening of his reputation owing to the misunderstanding of this report. If by his swearing to this statement it might be received in evidence in here, it would make a sick man feel a good deal better.

Mr. PECORA. Judge Murfin, get that statement in verified form and we will receive it.

Mr. MURFIN. All right; and then I will mail it to you.

Mr. PECORA. Now, Judge Murfin, let me ask you this: This report which bears your signature and which is dated May 25, 1932, was made, apparently, a week after the date of Mr. Verhelle's private and confidential memorandum to Mr. Mills. Did you come to the conclusion, as a member of this special committee that investigated these complaints or criticisms of Mr. Verhelle, that Mr. Verhelle had blackened Mr. Sweeny?

Mr. MURFIN. I certainly did, and I thoroughly believe it today.

Mr. PECORA. Did you so report it to anybody?

Mr. MURFIN. I reported it to everybody that talked to me about the charge against Don Sweeny.

Mr. PECORA. Mr. Verhelle was continued in the employ, in a very responsible position, of the Detroit Bankers Co. for many months after May 1932, wasn't he?

Mr. MURFIN. I do not think for many months.

Mr. PECORA. Well, as I recall his testimony, he did not resign until November of 1932.

Mr. MURFIN. It so happens, Mr. Pecora—and I hesitate to say this in public—that my legs went back on me shortly after this and I did not get near the bank until December. So what happened between the latter part of May and the early part of December I do not know.

Mr. PECORA. To whom was this report, a copy of which has been received in evidence as committee exhibit no. 126 of this date, submitted?

Mr. MURFIN. Mr. Mills said he would submit it to the governing committee, and afterwards he told me he had submitted it to the governing committee.

Mr. PECORA. Do you know whether or not the feeling you have just given expression to, to the effect that Mr. Sweeny had been blackened by Mr. Verhelle in Mr. Verhelle's private and confidential memorandum of May 18, 1932, was also shared by the other members of the committee who signed this report, committee exhibit no. 126?

Mr. MURFIN. I can only answer that question by saying that Mr. Sweeny is and always has been held in the highest regard and esteem as an honest and conscientious man.

Mr. PECORA. I did not ask you that. I asked you if the opinion which you entertained with regard to Mr. Verhelle having blackened Mr. Sweeny in his private and confidential memorandum of May 18, 1932, was also shared by the other members of the special committee who made this report after their investigation of Mr. Verhelle's memorandum.

Mr. MURFIN. It was shared by all of the committee except Mr. Pipper. You will notice that Mr. Pipper concurred in the part exonerating Mr. Sweeny, but did not concur in the part of it where the committee said Mr. Verhelle was actuated by improper motives. Mr. Pipper was very particular to make that distinction. And I might add that Mr. Pipper today is auditor in the new bank of which Mr. Verhelle is comptroller.

Mr. PECORA. What is that?

Mr. MURFIN. Mr. Pipper today is auditor in the new bank in which Mr. Verhelle is comptroller. I cannot remember the name of the new bank. Is it the Manufacturers?

Senator COUZENS. The Manufacturers National Bank.

Mr. MURFIN. All right.

Mr. PECORA. In this report of your committee, to which your signature is appended, you state, among other things, as follows:

We wish to take this occasion to say that not only were they innocent of wrongdoing—

Referring to Sweeny and Bodde—

but the committee have all been impressed with the belief that the written memorandum delivered to the members of the committee, which set forth certain facts, was prepared in such a manner as to show animosity on the part of

the person making the memorandum against these particular officers. And the memorandum was prepared in such a way as to impute wrongdoing without having examined or brought in all the other existing facts.

Now, I take it that that statement represented the conclusions and opinions of all the members of this examining committee, or this special committee?

Mr. MURFIN. Except Mr. Pipper.

Mr. PECORA. And do you know why under those circumstances Mr. Verhelle's employment in the responsible position of comptroller of the company, the Detroit Bankers Co., was continued until November of 1932?

Mr. MURFIN. Frankly, I did not realize that he had continued there that long.

Mr. PECORA. Well, do you know how long he was permitted to continue?

Mr. MURFIN. No; I do not.

The CHAIRMAN. It has already appeared, but for my own information, what position did Mr. Sweeny hold in the bank?

Mr. MURFIN. He was president of the First National Bank.

The CHAIRMAN. At that time?

Mr. MURFIN. Yes, sir.

Mr. PECORA. Judge Murfin, will you let me have your copy of Mr. Verhelle's private and confidential memorandum again?

Mr. MURFIN. Certainly.

Mr. PECORA. On page 21 of your copy of Mr. Verhelle's private and confidential memorandum there is a marginal notation, in lead pencil, reading:

How?

With a question mark after that word. And that is alongside of the following statement appearing on that page of the confidential memorandum:

In addition to the five mortgages described in the report in the case of Mr. Mills there appears to be unquestioned legal liability in connection with seven other mortgages totaling approximately \$4,400,000.

Do you recall your reason for making that notation?

Mr. MURFIN. I do not. If you will let me look at the copy, it may be I will. But I do not now.

Mr. PECORA. Here is your copy of the private and confidential memorandum.

Mr. MURFIN. What page is it on?

Mr. PECORA. On page 21.

Mr. MURFIN. Yes; I remember that very well.

Mr. PECORA. All right; tell us about it.

Mr. MURFIN. Mr. Sweeny had operated more or less in real estate, and there were pieces of property—and I can't get this exactly straight, I am afraid—in which he had an interest, and he sold without assuming the mortgage. He had gotten rid of them, and had made money on them, and did not assume the mortgage. This report indicated that he had assumed it, and this was false. And I might say that the information was in the bank, and any man in 2 seconds could have learned of the falsity of that statement.

Senator COUZENS. Did you investigate to see if Mr. Sweeny had an interest in the Wise Chrome Products Corporation?

Mr. MURFIN. Yes. He and Mr. Bodde each had a small stockholding interest, but I cannot tell you how much. If permitted, I might see if it is in Mr. Sweeny's notes here [pointing to a paper]. But they were merely stockholders. Now, this is my memory of it, and you must remember that we did not have a stenographer present, and that this was a long time ago, and a lot of things have happened since. But my memory is that Mr. Bodde and Mr. Sweeny held some stock in that company, and they lost all that they had put into it. They never got any money out of it at all. Neither one of them was an officer or director, but the man who was running this company—and I have even forgotten his name. Was it Wise?

Senator COUZENS. The Wise Chrome Products Co.

Mr. MURFIN. He had been quite a money-maker, and it was something in connection with automobiles, and I don't remember now whether he had lost his grip or that automobiles quit using his product. But Sweeny and Bodde had put money into that company, and it did not turn out very well, so they lost their money. And I think Sweeny loaned that company some money once to help it along. That was all that that was. They did not buy their stock until long after the company had been a customer of the bank. Yes; it had been a customer of the bank for a long time when they bought their stock.

Mr. PECORA. On page 23 of your copy of this private and confidential memorandum I find a lead-pencil notation reading:

Bad.

Alongside the following paragraph:

On Saturday, April 30, the last day of the month, a check was drawn by A. E. Moody in the sum of \$600, and the balance in his account that day being \$308.24.

Mr. MURFIN. Pardon me, Mr. Pecora, and I can save you a little time.

Mr. PECORA. All right.

Mr. MURFIN. These notes other than in connection with Mr. Sweeny and Mr. Bodde I made in anticipation that my legs would get well instead of worse. But I heard no testimony of any of these people, I mean on any of these people, except Sweeny and Bodde. If you are now on the Moody part of it, I am out.

Mr. PECORA. Well, then, I have covered all of the lead-pencil notations or other kinds of notations that appear in your copy of Mr. Verhelle's private and confidential memorandum relating to Mr. Bodde and Mr. Sweeny.

Mr. MURFIN. I would presume so, from your statement.

Mr. PECORA. I think I have. And I now return your copy to you.

Mr. MURFIN. And I acknowledge its return.

Senator COUZENS. I think there is mention in this report which you have in your hand of the fact that Dr. Davis had his matters in the care of Mr. Sweeny. Does that occur in the report that you have, Mr. Pecora?

Mr. PECORA. Yes.

Mr. MURFIN. That is correct. Mr. Sweeny carried a special account in the bank for the benefit of Dr. Davis, in the name of Don M. Sweeny, special, or Don M. Sweeny, trustee, and I have for-

gotten what it was. I read something in the paper about Dr. Davis having written a letter or sent a telegram down here to you gentlemen.

The CHAIRMAN. Yes.

Senator COUZENS. He wrote a letter to the chairman of the committee.

Mr. PECORA. Judge Murfin, did you find as a member of this special committee after inquiring into the confidential memorandum of Mr. Verhelle, that substantially all the statements appearing as statements of fact were warranted on the basis of the actual facts?

Mr. MURFIN. Substantially that is an accurate statement. But the difficulty with that was, as we lawyers know, they were half truths and quarter truths. They were statements it would have been so easy to have checked up and verified and thereby showed a complete absence of wrongdoing in any particular. That was the reason we thought there was something back of this report.

Senator COUZENS. Did you find whether there was anything back of the report?

Mr. MURFIN. I think nearly everything in the report was true, but it did not tell one third of it. That was the difficulty.

Senator COUZENS. Why did you think there was animus back of the report?

Mr. MURFIN. Because it was such an unfair report, such an unfair comment. He had access to all the facts, and yet he only put the worst foot forward, just as I take it an investigating committee does sometimes.

Senator COUZENS. Well, why didn't you call in Mr. Verhelle and ask him about it?

Mr. MURFIN. Well, we had the chief auditor of the bank. He knew more about it than anybody.

Senator COUZENS. I know, but he had not made the report.

Mr. MURFIN. That is true.

Senator COUZENS. It seems to me if I had been on the committee, I would have asked what prompted Mr. Verhelle to make such a statement as you allege he made.

Mr. MURFIN. Well, we did not do it. The suggestion was never made. It never occurred to any of us. That is the only answer I can give you.

Mr. PECORA. Were you referring to this committee when you said just now:

Just as I take it an investigating committee does sometimes?

Mr. MURFIN. Partly so; yes.

Mr. PECORA. What basis have you for that statement?

Mr. MURFIN. Because I think this committee so far has just produced the worst side of our picture instead of the good side of the picture.

Mr. PECORA. Well, let me tell you, Judge Murfin, if you are not familiar with the complete record of these hearings, that there has scarcely been a witness examined before the committee who has not been asked, as Mr. Stair was this afternoon in your hearing—

Mr. MURFIN (interposing). I can hear you all right, Mr. Pecora.

Mr. PECORA. Yes; I know it, and I want to make sure that you can.

Mr. MURFIN. I can hear you all right.

Mr. PECORA. Who has not been asked before he was finally excused, if there was any statement he wanted to make to the committee, or anything further that he wanted to bring to the notice of the committee, without the necessity of being questioned specifically about it?

Mr. MURFIN. All right.

Mr. PECORA. And that wherever a witness has indicated a desire to lay other matters before the committee he has been accommodated in that desire?

Mr. MURFIN. That does not change my opinion a particle, not a particle.

Mr. PECORA. And the committee has been open to anybody, yourself included, to present any evidence that you may want to present. Judge Murfin, with regard to the situation that the committee is inquiring into now.

Mr. MURFIN. I shall cheerfully answer any of your questions, and give you any information I have that you want that might be helpful.

Mr. PECORA. Do you think you have more information with regard to the matters I have questioned Mr. Stair about this afternoon than he showed?

Mr. MURFIN. Please do not ask me to answer that question. It is not fair to ask one witness to characterize the testimony of any other witness and, as you know, it is not allowed in court.

Mr. PECORA. Do you think it is fair of you to characterize the conduct of the investigation by this committee with the apparently limited knowledge you have of the record made here?

Mr. MURFIN. I have a pretty fair knowledge of this record.

Mr. PECORA. Are you familiar with the entire record?

Mr. MURFIN. I am pretty familiar.

Mr. PECORA. Do you know anything in the record that has been presented so far that is not in accordance with the facts?

Mr. MURFIN. I am not going into that.

Mr. PECORA. By the way, Judge Murfin, did you, as a member of this special investigating committee that passed upon Mr. Verhelle's private and confidential memorandum, ascertain the facts and circumstances with regard to the transaction referred to therein that related to the discounting of a note by the bank, a note that was dated 3 weeks after the death of the maker of the note?

Mr. MURFIN. I haven't any recollection of that whatever.

Mr. PECORA. You have no recollection of it at all?

Mr. MURFIN. No; I haven't any recollection of it whatever.

Mr. PECORA. Well, it is referred to in some detail in Mr. Verhelle's private and confidential memorandum, which you were supposed to inquire into.

Mr. MURFIN. Which officer did that—Mr. Bodde or Mr. Sweeny?

Mr. PECORA. It is included in Mr. Verhelle's private and confidential memorandum.

Mr. MURFIN. Well, I do not know anything about that. I did not get into anything except as to Bodde and Sweeny.

Mr. PECORA. Did you read the entire private and confidential memorandum of Mr. Verhelle?

Mr. MURFIN. I certainly did, and tried to get myself thoroughly prepared to conduct a fair and impartial investigation of the facts.

Mr. PECORA. You do not recall having inquired into that particular item in Mr. Verhelle's private and confidential memorandum, regarding the discounting by the bank of a note about 3 weeks after the death of the maker of the note?

Mr. MURFIN. That could not have been in the Bodde or Sweeny part, was it?

Mr. PECORA. It was in Mr. Verhelle's private and confidential memorandum.

Mr. MURFIN. Well, outside of Bodde and Sweeny, I do not remember about it.

Senator COUZENS. Judge Murfin, you testified a while ago that you were familiar with all of the testimony before this committee.

Mr. MURFIN. Well, I am. I read that in the paper. But I do not remember the details of it. And I do not think I said I was familiar with all of it. I said I had been following it very carefully.

The CHAIRMAN. That is one trouble the committee has to deal with, when they get a witness on the stand he does not know anything.

Mr. MURFIN. Well, you still have that trouble.

The CHAIRMAN. Yes. We are trying to get the facts, is all.

Mr. PECORA. Yudge Murfin, is there any evidence you would like to bring to the notice of the committee pertaining to the subject matter of this inquiry?

Mr. MURFIN. I would rather not, for if I started out I would sit here for a week. And I think the sooner this thing is stopped the happier my friends in Detroit are going to be. I do not want to contribute to their unhappiness by stirring things up by a long statement or a short statement or anything else. I would rather not.

Mr. PECORA. You say you would rather not?

Mr. MURFIN. I would rather not.

Mr. PECORA. You are invited to do it if you wish.

Mr. MURFIN. I appreciate the invitation, and if you do not mind I will not accept it.

Mr. PECORA. By the way, Judge Murfin, you were one of the stockholders of the Detroit Bankers Co., weren't you?

Mr. MURFIN. I am sorry to say I was, and much larger than I would have liked.

Mr. PECORA. You were a director of it?

Mr. MURFIN. Not of the Detroit Bankers Co.—now, wait a minute. I was a director of the Detroit Bankers Co. for, I should say, less than a month.

Mr. PECORA. When was that?

Mr. MURFIN. At the annual meeting in 1933, in order to reduce the size of the board of the First National Bank and not hurt the feelings of some charming directors who had been bank directors for a great many years, they took all of the directors of the First National Bank and made them directors of the Detroit Bankers Co., and in that way I became a director of the Detroit Bankers Co. We had two meetings—one meeting at which we elected officers and the next meeting we voted for voluntary dissolution. So that my connection with the Detroit Bankers Co. was practically nil.

Mr. PECORA. You are familiar with the fact, as a stockholder of the Detroit Bankers Co., that the certificates of stock issued by that company bore upon them——

Mr. MURFIN (interposing). Yes. I am very familiar with that. It was article 9.

Mr. PECORA. Article 9 of the articles of association or incorporation of the company regarding the statutory liability——

Mr. MURFIN (interposing). I am very familiar with that.

Mr. PECORA (continuing). Of the stockholders of the Detroit Bankers Co.

Mr. MURFIN. Yes; I am very familiar with that.

Mr. PECORA. You are identified at the present time in a professional capacity, not as a party in interest, with litigation now pending in the courts of Michigan, in which the stockholders of the Detroit Bankers Co. are seeking to avoid the liability referred to on those certificates of stock.

Mr. MURFIN. I have been asked by my associates in that litigation to try that case, and that is one reason I am anxious to get back home and complete my preparation of it. I know that case, I think, by heart now. And we are going to win it.

Mr. PECORA. And you are going to win it?

Mr. MURFIN. We are going to win it.

Mr. PECORA. And by such victory deprive the depositors of those banks of the protection that the statute—at least it was thought—gave them.

Mr. MURFIN. Ninety odd percent of the depositors are stockholders, and they will be more benefited if I win my case than if I should lose it.

Mr. PECORA. Ninety-two percent of the depositors are stockholders of the Detroit Bankers Co.?

Mr. MURFIN. No, sir; of the First National Bank. This suit is not against the stockholders of the First National Bank. It is against the stockholders of the Detroit Bankers Co.

Mr. PECORA. I know that.

Mr. MURFIN. And you would not ask me to try my lawsuit with you here, would you?

Mr. PECORA. I am neither asking you nor suggesting it, Judge Murfin. I merely wanted to show your interest.

Mr. MURFIN. I am very much interested. Yes; I am very much interested.

Mr. PECORA. All right. Now, is there anything more you can tell this committee with regard to the investigation that you and Mr. Mills and Mr. Newberry and Mr. Butler and Mr. Pipper made of the allegations and criticisms contained in Mr. Verhelle's private and confidential memorandum?

Mr. MURFIN. I have not. We tried to be as thorough as we could. We had the junior officers before us, and the records and a lot of papers, and we made a report that stated our conclusions.

The CHAIRMAN. And you were all personal friends of those people?

Mr. MURFIN. Yes, sir; personal friends—or business friends is the better way to put it, Senator Fletcher. Here were men, esteemed at home, against whom nothing of any kind before had ever been said. These men had risen from the ranks, from the bottom up,

and you cannot rise from the bottom up unless you are a pretty high-grade man. And these charges on their face, although they sounded very serious, yet on investigation were found to have no foundation in fact.

Mr. PECORA. Judge Murfin, it will be necessary for you to appear again tomorrow, I am sorry to say.

Mr. MURFIN. So am I. And I hope when we are through tomorrow we won't be sorry again.

Mr. PECORA. I am only sorry because you have to appear again tomorrow.

Mr. MURFIN. Very well. I will be here.

Mr. PECORA. Because you wanted to get away today, and I should like to have accommodated you.

Mr. MURFIN. I will be here.

The CHAIRMAN. The subcommittee will now stand adjourned until 10:30 tomorrow morning.

(Thereupon, at 4:50 p.m., Thursday, Feb. 1, 1934, the subcommittee adjourned until 10:30 the following morning.)

COMMITTEE EXHIBIT No. 130, FEBRUARY 1, 1934

EXHIBIT K-1,—ANNUAL REPORT DETROIT BANKERS COMPANY, DETROIT, DECEMBER 31, 1932

Combined statement of condition of the banking units at close of business, December 31, 1932

RESOURCES	
Cash on Hand and in Banks.....	\$80,643,226.09
United States Government Securities.....	43,044,445.27
Other Bonds and Securities.....	40,042,561.41
Stock in Federal Reserve Bank.....	1,882,500.00
Loans, Discounts and Advances.....	178,851,033.13
Loans Secured by Mortgages.....	172,812,455.90
Banking Offices and Real Estate.....	36,807,720.50
Accrued Income Receivable.....	4,758,284.68
Customers' Liability on Acceptances and Letters of Credit.....	894,576.09
Total Resources.....	<u>\$559,736,802.98</u>
LIABILITIES	
Capital.....	\$29,910,000.00
Surplus.....	29,140,000.00
Undivided Profits.....	3,329,267.03
Reserve for Interest, Taxes, etc.....	2,239,730.82
Bills Payable.....	901,065.16
Acceptances and Letters of Credit.....	895,232.00
Circulation Outstanding.....	8,588,140.00
Deposits:	
Demand.....	\$192,820,109.65
Time.....	291,913,258.32
	<u>484,733,367.97</u>
Total Liabilities.....	<u>559,736,802.98</u>

JANUARY 9, 1933.

To the Stockholders of the Detroit Bankers Company:

The year 1932, just passed, is the third full year after the economic upset of 1929. In it, individuals and businesses generally have felt the accumulated effects of three years of depression. Your Company, as banker for many hun-

dred thousands of persons in the Detroit Metropolitan area, and over 95% of every type of business represented there, has necessarily been a focus point for individual and business problems. It has been organized and conducted so as to safely meet these problems from the standpoint of its customers and depositors, and has, as rapidly as possible, adjusted its own affairs and those of its unit organizations to face the requirements of the present general business situation.

During the year there was only a minor change in the outstanding capital of the Detroit Bankers Company, represented by the issuance of \$2,679.60 of par value of Detroit Bankers Company stock in exchange for outstanding and unexchanged shares of the First National Bank—Detroit. There are at present outstanding 1,775,598 shares of \$20.00 par value.

In February, 1932, the Detroit Bankers Company established the First National Bank at Pontiac, contributing \$500,000.00 of Capital and \$250,000.00 of initial Surplus. This was a newly incorporated National Banking Institution for the purpose of taking over the deposits and liquidating the assets of the First National Bank & Trust Company of Pontiac.

The general result of operations for the year 1932 is best shown by a comparison of the total Capital, Surplus and Undivided Profits of all the banking units as of December 31, 1931, and December 31, 1932, as follows:

Capital, Surplus and Undivided Profits 12/31/31-----	\$68,459,912.03
<i>Add:</i>	
Capital Stock \$500,000.00, Surplus \$250,000.00 of new First National Bank at Pontiac-----	750,000.00
Total-----	\$69,209,912.03
<i>Add:</i>	
Net Earnings after depreciation and all other charges but before Dividends-----	5,740,348.29
Total-----	\$74,950,260.32
<i>Deduct:</i>	
Dividends Paid-----	\$2,813,500.00
Transfers to Reserves-----	9,757,493.29
	<u>12,570,993.29</u>

Total Capital, Surplus and Undivided Profits 12/31/32-- \$62,379,267.03

Provision was made for reductions in asset values by transfers to Reserves of nearly \$10,000,000.00, in addition to nearly \$3,000,000.00 of Reserves already provided for during the year out of current earnings and other sources.

The banking units of your Company have, in the past three years of its existence, endeavored to meet the present economic conditions by setting up provisions for losses and contingencies in excess of \$37,000,000.00

The combined statement of all banking units shows a decrease in total income for the year, of \$4,776,911.95, over 1931, slightly less than 14 per cent, due mostly to loss of income as a result of liquidation of earning assets. The close control of operating and other expenses throughout the Group is evidenced by the fact that total Expenses in the same period were reduced \$3,061,657.20, leaving a reduction of Net Operating Income of \$1,715,254.75. Net earnings, after all charges but before Dividends for 1932, were \$5,740,348.29, as compared with \$7,475,293.47 for the year 1931 preceding—a decrease of \$1,734,945.18.

Dividends have been substantially reduced in greater proportion than the decline in Net Earnings. A total of \$2,813,500.00 was paid in 1932 as against \$6,051,400.00 in the year 1931. This dividend reduction of \$3,237,900.00 exceeds the reduction in Net Earnings by \$1,502,954.82, the capital investment being thereby strengthened by this latter amount.

The First National Bank—Detroit, Board of Directors has had the large number of seventy-six members. It was determined, in December, 1932, to reduce the number of the Board of Directors of the Bank to thirty-eight, five to be Bank Officers and three Trust Company Officers, all of the present Directors of the Bank being made Directors of the Detroit Bankers Company at the annual meeting in January.

The general activities of the Detroit Bankers Company, operating as a Holding Company, are rapidly being reduced to the simplest possible form. It will act almost solely as a holder of the stock of its constituent units, its

every other function having been eliminated but that of joint Tax, Auditing and Insurance Departments for all units.

Every effort has been put forth by your Management in the interests of economy and to reduce the burden of expense of the Holding Company to the affiliated units. The operating expenses of the Detroit Bankers Company itself, have been reduced from an average of approximately \$46,000.00 per month at the first of the year of 1932, to an average estimated amount not to exceed \$18,000.00 per month for the beginning of 1933. This reduction is at the rate of \$336,000.00 a year. Further economies will be made in 1933, during which time the full benefit of this year's changes will be felt. Official salaries of the Detroit Bankers Company for the month of December, 1931, were \$12,075.30; in December, 1932, \$3,633.30, and in March, 1933, will be further reduced to \$1,633.30. This alone is a reduction of \$10,400.00, or at the rate of \$124,800.00 a year. All other salaries were \$21,973.30 for the month of December, 1931, and are estimated for the month of January, 1933, at \$7,000.00—a monthly reduction of nearly \$15,000.00 or at the annual rate of \$180,000.00.

The following are reports of various corporations owned by your Company:

FIRST NATIONAL BANK—DETROIT

On December 31, 1931, the First National Bank in Detroit and the Peoples Wayne County Bank were consolidated into the First Wayne National Bank, thus combining in one institution, under a National Charter, all of the Detroit city banking business of this Company. This has made possible substantial economies in corporate expenses and operating organization.

On October 10, 1932, the name was changed from First Wayne National Bank to First National Bank—Detroit, perpetuating the name of the oldest member of the banking units, originally established in 1863.

The total Operating and Other Income for the First National Bank—Detroit was reduced \$3,645,068.95 in the year 1932 from the year 1931. This was largely represented by loss of Interest Income resulting from liquidation of loans and other assets and the reduced rates of interest obtainable on investments made in the year 1932. This reduction was partially offset by an increase of miscellaneous income due to the specific efforts of the Management to establish suitable charges for services that have heretofore been unprofitable.

To meet the reduction of Income, expenses of all kinds have been carefully surveyed and controlled. The expense reduction for the year 1932 as compared to 1931 was \$2,753,240.79.

Net Operating Income, before recoveries and charges, for 1931 was \$8,103,945.07; for 1932, \$7,212,116.91, a reduction of \$891,828.16, or approximately 11 per cent.

Dividends paid by the First National Bank—Detroit, to the Detroit Bankers Company during the year were \$2,295,000.00 less than in 1931. This reduction in dividend payments recovered for the Bank the loss in Net Operating Income of \$891,828.16, and retained \$1,403,171.84 of operating profits. Provision was made for depreciation and more than \$11,000,000.00 set aside for other Reserves.

Beginning the year 1933 the total annual payroll will be approximately \$1,000,000.00 less than at the beginning of the year 1932, as a result of general equalizations and salary reductions of Officers and Employees and some necessary eliminations.

In keeping with the prevailing trend of interest rates on investments and the policies already established by large banks throughout the Country, interest rates paid on commercial accounts were reduced during the year. In addition, a regulation was recently passed by the Detroit Clearing House Association whereby, effective January 1, 1933, the maximum interest rate to be paid on Savings deposits will be 2½% per annum instead of 3% as heretofore. These changes will be reflected in the year 1933 by a substantial reduction in interest expense.

During the year 34 branches with over-lapping territories were consolidated and substantial operating economies obtained with very little loss of deposits due to these changes. This policy of consolidating competing branches will be continued.

Resources, deposits and number of customers of First National Bank—Detroit, are greater than the total of all other Detroit banks combined.

DETROIT TRUST COMPANY

In last year's annual report to the Stockholders, attention was called to the fact that the Detroit Trust Company had transferred to the Detroit Bankers Company its ownership of the First Detroit Company, which transacted the bond and investment business of the Company, and that it would thereafter devote its attention to activities of a purely corporate and fiduciary nature.

The net earnings of the Company of 1932 were \$782,614.39, which is about 10% upon the average of its Capital, Surplus and Undivided Profits for the year. During the year the Company has charged out of its Undivided Profits account and paid on account of its participation in the guaranty of deposits of the American State Bank and other banks, the sum of \$390,506.00. It has transferred to reserves from Undivided Profits and current earnings, after payment of dividends, the sum of \$955,114.39. Its Capital, Surplus and Undivided Profits of December 31, 1932, were \$7,273,008.18.

In spite of existing business and financial conditions, a large volume of new trust business has been placed upon the books of the Company during the year.

AFFILIATED BANKS

Peoples Wayne County Bank of Dearborn
 Peoples Wayne County Bank of Ecorse
 Peoples Wayne County Bank of Hamtramck
 Peoples Wayne County Bank of Highland Park
 Peoples Wayne County Bank of River Rouge
 Peoples Wayne County Bank of Wyandotte
 Grosse Pointe Savings Bank
 First National Bank of Pontiac

During the year just passed the Detroit Bankers Company caused a new bank to be organized in Pontiac, namely, the First National Bank at Pontiac. The present eight outlying units are the result of the merging and consolidating of fifteen affiliated or independent institutions. This completes our chain of eight wholly owned unit banks operating eighteen banking offices which serve suburban districts of Metropolitan Detroit and the city of Pontiac.

These units have a combined invested capital of \$3,347,647.35 and are used as depositories for upward of 70,000 customers. Deposits in these eight suburban institutions total in excess of \$23,000,000.00.

Net Operating Income for these banks in the year 1932 amounted to \$155,450.49. During the year provision for reduction in asset values were set-up, amounting to \$543,350.28.

A comparison of the operations of these banks for the year 1931 and 1932 is difficult, owing to the acquisition, during the latter year, of the First National Bank of Pontiac. If, and when, the Glass Bill passes, with its provision for State-wide branch banking, it is contemplated that all these banks, with the possible exception of the First National Bank at Pontiac, will become branches of First National Bank—Detroit.

FIRST NATIONAL BANK BUILDING COMPANY AND GARAGE

The operations of this company are absorbed in the First National Bank—Detroit. Net income before depreciation, but after taxes, in 1932 was \$349,447.57, as compared with \$364,747.98 on the same basis for 1931, a decrease of only \$15,300.41.

In 1932 as compared with 1931, building rental income was down \$54,892, or 4.3%; operating expense was down \$50,838, or 14.2%; construction expense was up \$4,325, or 8.1%; fixed expense was down \$36,262, or 6.8%.

Including the garage, the year closed with a net loss of \$1,552, as compared to a net profit of \$13,748 in the previous year. The garage loss in 1932 was greater-by \$20,197 than it was in 1931. (The garage paid the building \$42,000 rent). It is seen, therefore, that except for the garage, earnings were better in 1932 than in 1931.

FIRST DETROIT COMPANY

This is the investment unit of your company. On December 31, 1932, it had Capital, Surplus and Undivided Profits of \$1,116,916.73. For the year 1932 its Net Operating Profit was \$96,844.07. Of this amount \$36,227.68 was transferred to the Reserve for Contingencies, making that Reserve \$466,672.22, and adjusting the Company's inventory acquired prior to 1932 to market value, no adjustment being necessary on securities purchased during the year. \$13,954.85 in Special Operating Reserve was carried forward into 1933, and the balance of \$46,661.67 was transferred to Undivided Profits. For the second consecutive year each office of the Company was operated at a profit. Branch offices of the Company were operated in New York, Chicago and San Francisco, the Boston and Los Angeles offices having been eliminated. Salaries and expenses were sharply contracted during the year, resulting in a total reduction of 46.71%.

DETROIT BANKERS SAFE DEPOSIT COMPANY

This corporation with a capital of \$100,000 was operated at a small profit in 1932.

IN CONCLUSION

You will be interested in the following excerpt from a speech made by the Hon. Carter Glass, Chairman of the Senate Banking and Currency Committee, upon the floor of the United States Senate on Thursday, January 5th, commenting upon the two principal Michigan Banking groups.

"I am glad to testify from the thorough investigation of the Banking and Currency Committee, that the group banking system of the State of Michigan has been as thoroughly and effectively well-managed as is possible to a chain banking system, and has been of great service to the commercial, industrial and the credit requirements of that State. . . . They are capitalized upon a fair and honest basis. They have not gone out, as the managers of some such systems have done and stripped their victims by watering their stock in a shameful way."

By Order of the Board of Directors.

E. D. STAIR,
President.

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